



# PERU



## Background Information for Investors

This memorandum has been prepared by the undersigned solely for the purpose of providing background information on the Republic of Peru.

**Merrill Lynch White Weld Capital Markets Group**  
**Merrill Lynch, Pierce, Fenner & Smith Incorporated**

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Except as otherwise specified, all amounts in this Memorandum are expressed in Peruvian soles ("S/." or "sol") or U.S. dollars ("\$"). See "Foreign Exchange" herein for information on buying and selling rates as quoted by the Central Reserve Bank of Peru ("Banco Central") for the period 1976 through 1980. On May 15, 1981, the buying and selling rates quoted by Banco Central for the U.S. dollar were S/. 407.33 and S/. 409.37, respectively. Unless otherwise indicated, all amounts are translated at their historical rates of exchange.

The official units of measurements are those of the metric system.

Equivalents

1.60934 kilometers (Km)	=	1 mile
258.99824 hectares	=	1 square mile
0.40468 hectare	=	1 acre
0.45359 kilogram (Kg)	=	1 pound
0.907 metric ton (MT)	=	1 short ton
10 quintals (qq)	=	1 metric ton
0.7645 cubic meter	=	1 cubic yard

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# The Republic of Peru

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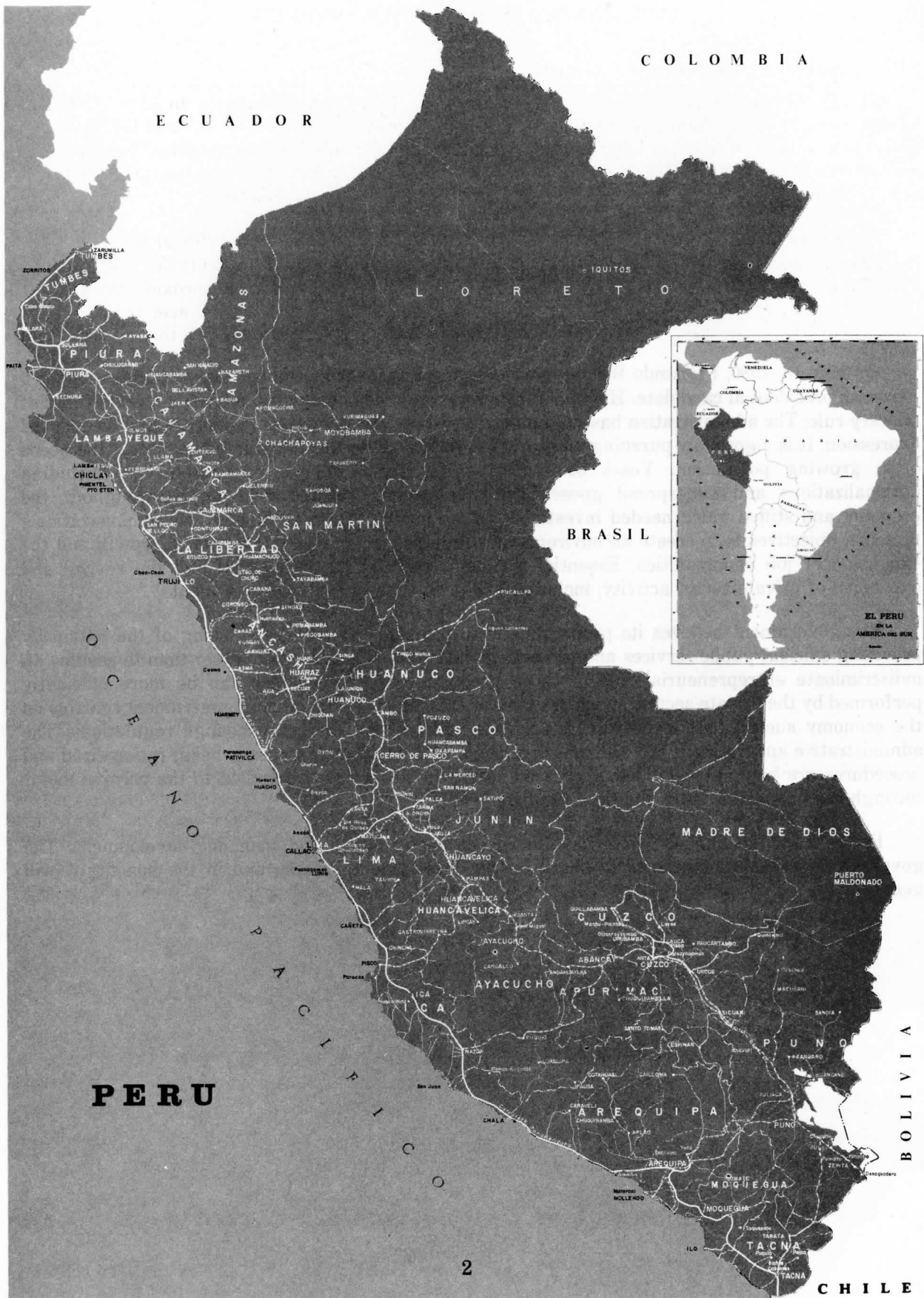
## INTRODUCTION

On May 18, 1980, Fernando Belaunde was elected President by the largest vote ever cast for a Peruvian presidential candidate. His inauguration restored democracy to Peru after twelve years of military rule. The administration has restored constitutional order, personal liberties and freedom of expression. It is vigorously pursuing a program to revitalize the economy in order to meet the needs of a growing population. Years of radical social and economic experimentation including nationalizations and widespread government intervention created distortions throughout the economy and stifled much needed investment in productive capacity. Among the administration's principal objectives is to create an environment conducive to investment, economic growth and the expansion of job opportunities. Essential to this is the control of inflation and the revival and expansion of private sector activity, including the promotion of foreign investment.

The government believes its proper role is to promote the social well-being of the nation by providing efficient public services and protecting the rights of its citizens, rather than to assume an indiscriminate entrepreneurial role in those productive activities which can be more efficiently performed by the private sector. Measures already taken include liberalizing government controls on the economy such as price controls, import restrictions, and foreign exchange regulations. The administrative apparatus of the central government and public enterprises is being rationalized and procedures are being streamlined. Increased resources are being channelled to the private sector through the financial system and tax incentives.

Peru's rich and varied resources offer great opportunities for economic development. The government welcomes investors to share in the development process and in the benefits it will generate.





## BACKGROUND INFORMATION ON PERU

### Area, Topography, Climate and Population

The Republic of Peru is the third largest country in South America with an area of 496,224 square miles. It shares its borders with Ecuador and Colombia to the north, Brazil and Bolivia to the east, Chile to the south and is bordered on the west by a 1,450 mile Pacific coastline. The country is divided into three distinct topographic and climatic regions: a narrow coastal area, the "Costa"; a mountainous central zone, the "Sierra"; and the upper Amazon basin, the "Selva".

The Costa is the center of the country's industrial, commercial and agricultural activity. Lima, the political and economic capital, is located here. This narrow region accounts for only 10% of Peru's land area, but supports over 50% of the population and generates approximately 70% of Gross Domestic Product ("GDP"). The climate is semiarid to arid with mild and even temperatures throughout the year. Water is obtained from precipitation in the mountains to the east, and underground wells.

The Sierra consists of the Andean mountains, high plateaus and valleys that cover 27% of the land area and is inhabited by 47% of the population. This region contains the country's major mineral deposits. Depending on elevation the climate ranges from temperate to frigid, with rainfall exceeding 100 inches annually in some areas. The topographic characteristics of the Sierra have hindered the development of transportation and communication facilities within the area and between the coast and the interior.

The Selva is the largest of the regions and extends from the eastern slopes of the Andes to the lowlands of the Amazon basin. Much of it consists of tropical rain forests and population throughout is sparse. In the absence of developed land transportation facilities, many communities are dependent upon water and air transport.

The Selva is rich in petroleum and forest-related products, including oak, mahogany and cedar. Large areas of the region have the potential for major agricultural production. Exploration and development of petroleum reserves has stimulated new economic activity within the past decade.

Peru's population was estimated to be approximately 17.3 million in mid-1979. The vast majority of the population is Roman Catholic. Lima is the country's principal city with an estimated population of 5 million. Other major cities include Arequipa, Trujillo and Piura, with populations of 460,000, 410,000 and 180,000, respectively. The nation's annual population growth rate has averaged approximately 3.0% in recent years. The government is offering voluntary family planning assistance and is encouraging population shifts away from greater Metropolitan Lima.

### History

A variety of cultures developed within the territory of modern Peru during the pre-Columbian era. Among these were the Nazca and Paracas in the south, the Moche and Chimú in the north and the Tiahuanaco which, from a highland base also spread to much of the coastal area. Most important of all was the Inca Empire, the first to exercise effective administrative control over substantially all of the Peruvian Andean and coastal areas. Beyond Peru the highland dominion of the Incas extended from northern Ecuador to central Chile.

Arriving in 1531, a Spanish expedition led by Francisco Pizarro took advantage of the debilitating and disruptive effects of a protracted civil war of succession and by about 1540 had conquered most of the Inca Empire. Following a decade of intermittent strife among the conquerors and agents of the Crown, the Vice Royalty of Peru became a functioning entity of the Spanish Empire with authority eventually extending over all of Spanish South America and Panama.

Silver and gold were virtually the only export products but quantities shipped constituted a principal source of Spanish Crown revenues. Lima became the most important and prestigious colonial administrative center in South America.

During the colonial period, Spaniards and their descendants represented a small percentage of the population. Most of the indian population engaged in subsistence agriculture or manual labor on farms or in mines. Few were incorporated into the money economy. With few exceptions, Spain retained a monopoly on trade with its colonies and inhibited the development of competing local production. High administrative offices were usually filled by Spanish born officials, though by the seventeenth century there was a growing number of qualified "criollos", descendants of Spaniards born in America.

Peru became independent in 1821 and the wars of liberation ended in 1824 following the battle of Ayacucho. During the early years of independence, all heads of state were military and for the following century, administration by military figures predominated. The first civilian president was Manuel Pardo, elected in 1872. Effective political control passed among a small group representing powerful economic interests and the military and frequent changes in governments continued into the twentieth century.

Despite resistance by the traditional power structure, a pattern of broadening popular participation in the process of government and developing social measures has been evident during the past fifty years, reflecting the growth of the middle class and the increasing incorporation of rural indian population into the economy.

In the wake of a cabinet crisis in 1968, a military coup deposed President Fernando Belaunde and installed General Juan Velasco Alvarado, who dissolved Congress and ruled through a revolutionary junta and cabinet structure. Velasco's tenure was characterized by extreme nationalism and radical social and economic experimentation which transferred large segments of the economy to government control. Deterioration of the economy, an increasingly large and cumbersome administrative apparatus, growing fiscal deficits and the attendant inflationary distortions led to a new military junta replacing Velasco with General Francisco Morales Bermudez in August 1975.

Under Morales Bermudez an austere stabilization program was introduced to control the deepening economic and financial crisis. A political, economic and social development program setting more realistic goals was issued in 1977. In 1978 a framework was established to return to a constitutionally-elected government and a constituent assembly was convened in 1979. In May 1980, Fernando Belaunde was elected President with a 47% plurality of the largest popular vote in Peruvian history. The balance was divided among 14 other candidates.

## **Government**

Peru's governmental structure is established by the Constitution which took effect on July 28, 1980. Under the new charter human and civil rights are amply guaranteed. These include freedom of worship, assembly, the press and the right to due process of law. Discrimination by reason of sex, race, religion, ideology or native language is expressly forbidden. Legal mechanisms are established to enforce constitutional rights of individuals and groups as well as to prevent their infringement. Foreigners enjoy the same rights as Peruvians. In addition to remedies available through the judicial system, the Constitutional Tribunal (Tribunal de Garantías Constitucionales) has final jurisdiction over all denials of relief sought under the Constitution and on the constitutionality of all laws and regulations.

Executive, legislative and judicial functions are divided. The President, two Vice Presidents and members of both houses of Congress are elected by direct popular vote. The relationship between the executive and legislative branches contains elements of both the presidential and parliamentary



systems. Thus the President is not subject to dismissal by the legislature (except for certain extreme and defined offences) but ministers may be under certain circumstances. If the Chamber of Deputies forces the resignation of three cabinets, the President can dissolve that Chamber and call for new elections of deputies.

The executive branch is headed by the President of the Republic and his Cabinet (Consejo de Ministros). Under the new constitution the powers of the President have been significantly strengthened in order to provide for more effective policy formulation and execution. For example, the Executive may be authorized by Congress to draft and enact legislative decrees having the full force of law.

The chief officer of the Cabinet is the Prime Minister (Presidente del Consejo de Ministros) who is appointed and may be discharged by the President. The President appoints other Ministers at the suggestion of the Prime Minister and discharges them with his consent.

The President of the Republic is Chief of State and directs the overall policy of the government. Many presidential actions including proposing laws, regulations, the national budget and formal statements of policy to Congress require ministerial concurrence. This derives from the constitutional order which establishes the political responsibility of ministers—but not of the President—to Congress through the mechanisms of interpellation and censure, as well as civil and criminal liability for ministers' actions through the courts.

The collegiate powers of the cabinet are an innovation of the 1979 Constitution, prior to which ministerial responsibilities to the President and Congress were individual. Each ministry is charged with directing and administering public services within its jurisdiction.

Peru's Congress is composed of the Senate (Senado) and the Chamber of Deputies (Camara de Diputados), both elected for five year terms concurrently with the President. When Congress is not in session, certain legislative functions are delegated to the Permanent Commission (Comision Permanente) composed of the presidents of both chambers, five senators and ten deputies. The upper chamber comprises 60 senators currently elected nationwide, and all former constitutional presidents. The constitution contemplates establishing a regional framework for future senatorial elections. The 180 deputies are elected by districts based principally on population.

Legislation may be originated by either chamber, the President or the Supreme Court. After passage by both chambers, laws are submitted to the President for promulgation or suggested amendments. Congress may override any such amendments by vote of over half of the members of each house.

Among the Belaunde government's first actions was to correct past abuses which restrained the independence of the judicial branch. Judges are appointed from among candidates proposed by an independent body comprising representatives of bar associations and faculties of law as well as Supreme Court justices and the attorney general.

The Judiciary is composed of the Supreme Court (Corte Suprema); Superior Courts (Cortes Superiores) located in each judicial district; and by lower civil, criminal and specialized courts. The 1979 Constitution created a new entity (Ministerio Publico) independent of all other branches of government and responsible for watching over public interests, individual and collective, at all stages of the judicial process.

Peru is a member of the United Nations and related organizations, the Organization of American States, the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank, the General Agreement on

Trade and Tariffs (GATT), the Latin American Integration Association, the Latin American Economic System, the Amazonian Pact and the Andean Pact, among others.

### Political Parties

Political parties have historically formed around prominent individuals rather than common ideological views or economic interest. The principal parties, with their percentages of popular vote in the last presidential elections are:

Accion Popular—47%—Founded and led by President Belaunde. With its partners Accion Popular controls a clear majority in both chambers.

Alianza Popular Revolucionaria Americana (APRA)—26%—Until recently it had the largest membership and most developed party apparatus, but has recently split into rival factions.

Partido Popular Cristiano—10%—Established by former Christian Democrat Party members, it has entered into an alliance with Accion Popular and has cabinet representation.

Some 11 other parties, mostly identified with the left, split the remaining 17% of the vote. Several of those formed a coalition called Izquierda Unida for the November 1980 municipal elections.

## THE PERUVIAN ECONOMY

### Introduction

Peru's new government is promoting economic development by fostering more efficient utilization of resources, decontrol of the economy, greater participation of the private sector and more equitable distribution of the benefits of economic growth. The government has set a goal to achieve 6% real growth in GDP during the 1981-85 period. Rapid growth is expected in all sectors with the largest increases in mining, industry and construction.

The government is committed to achieving its goal of economic growth within a framework of sound financial policies. This includes lowering inflation, reducing the public sector deficit and maintaining a manageable balance of payments situation with prudent use of foreign debt.

During the past thirty years, Peru's economy has expanded at an annual rate of approximately 5% in real terms. The development and export of Peru's abundant natural resources, which include a wide variety of minerals, petroleum, agricultural products and fish, has been the dynamic force behind the country's economic growth. Industry has also developed and become increasingly complex and diversified. Despite this, much of Peru's economic potential remains to be developed. Underemployment is high and a large portion of the population, particularly in rural areas, lives at or near the subsistence level. Of those employed, over 40% are engaged in agricultural work. GDP per capita in 1980 was equal to \$980.

In the 1971-75 period, GDP grew at an annual rate of 5.5% with the main impetus coming from the growth in manufacturing in response to the government's import substitution program. On the expenditure side, growth was led by rapid increases in government spending and public investment. Political uncertainties and new laws to increase government control over the economy, which included in some cases the nationalization of private companies, inhibited the growth of the private sector. Primary production was stagnant during this period which together with a sharp decline in the anchovy catch in the mid-1970's seriously affected foreign exchange earnings.

The economic situation deteriorated rapidly in the mid-1970's. The government's ability to promote economic growth through increased public spending and investment was rapidly being exhausted. The growth in tax revenues did not keep pace with expenditures and public borrowing was out of control. Inflation was rising because of excessive monetary growth and declining production, which began to press on domestic prices after international reserves were exhausted. The stagnation in primary sectors, coupled with a sudden deterioration in terms of trade and a growing external debt service burden resulted in balance of payments deficits, and declines in GDP of 1.2% and 1.8% in 1977 and 1978, respectively.

The economy began to recover in 1979 with GDP rising by 3.8%. The improvement was largely due to a 6.7% increase in the primary sector and 3.9% in manufacturing.

GDP rose by 3.1% in 1980. The principal causes for the improvement were a sharp gain in manufacturing production, which grew by 6.9%, and an 18% increase in construction. These increases were partially offset by a 5.5% decline in agriculture caused by a serious and prolonged drought. Other sectors registering declines were fishing which fell by 2.6% because of a strict conservation program and mining which was off by 3.0%, principally because of a decline in world prices.

The outlook for 1981 is for stronger growth. Agriculture and mining are expected to recover from prior year levels and manufacturing and construction will continue to grow at high rates. Overall, the economy is expected to register a 6% growth rate for the 1981-85 period.

### **Role of Government in the Economy**

President Belaunde's administration is committed to reducing the government's direct participation in the economy, encouraging private sector investment, streamlining the bureaucracy and providing for more efficient administration of the existing state enterprises. The new government is actively promoting private investment in many sectors of the economy.

The government has already taken steps to accomplish these goals. A number of state-owned enterprises have been reorganized into corporate form to improve operating efficiency and accountability. State monopolies in several industries are being eliminated and new laws have been passed to rationalize the government's administration of the economy. A special commission headed by the President of COFIDE is reviewing all enterprises with state participation in order to redefine the state's entrepreneurial role and, where appropriate, to reduce its ownership. The private sector is being encouraged to participate in a number of areas previously reserved for the state.

A public investment program has been prepared covering the entire five year term of the government. Reflecting the administration's policies, investments in infrastructure and social services will be increased as a compliment to productive activities. The government's own investments in production will decline proportionately thus enabling the private sector to play a greater role in this area.

Prior to 1968, Peru had one of the most open economies in the hemisphere. New industry developed almost exclusively with private capital, and state intervention was minimal. Government participation was limited to monopolies of a few commodities and a few state companies engaged in industrial activities. After 1968 and during most of the 1970's, the state became increasingly involved in direct participation in the economy through takeovers of private companies and the creation of new state enterprises in a wide variety of industries. The number of state controlled enterprises increased from 18 in 1968 to over 170 by 1980. The public sector's share of GDP increased from about 16% in 1968 to 36% in 1979.

By the late 1970's, it was apparent that the resources and managerial capacity of the state had been stretched beyond their limits. The government's foreign borrowing capacity had been exhausted and as a result much needed investment stagnated. A large and inefficient bureaucracy had developed to oversee the administration of a wide range of governmental activities in the productive sectors of the economy. In addition, lack of funds due to government influence in pricing decisions and shortages of qualified personnel crippled the operations of many state enterprises.

As a result of the initiatives taken, the financial condition of the public sector has been significantly improved and an increasing number of trained managers and technicians have been attracted to public service.

### National Income Accounts

The following table sets forth GDP by type of expenditure for the years 1976 through 1980.

GROSS DOMESTIC PRODUCT BY TYPE OF EXPENDITURE (in millions of soles)					
	1976	1977	1978	1979	1980
GDP at Current Prices .....	769,052	1,052,146	1,670,945	3,056,271	4,955,251
Add: Imports of Goods & Services .	146,565	226,007	322,931	589,158	1,133,428
Total Supply of Goods & Services .....	915,617	1,278,153	1,993,876	3,645,429	6,088,679
Less: Exports of Goods & Services .	99,990	179,314	374,390	912,383	1,315,552
Total Goods & Services Available for Domestic Expenditure.....	815,627	1,098,839	1,619,486	2,733,046	4,773,127
Allocation of Total Goods & Services:					
Private Consumption .....	577,623	783,192	1,167,346	1,973,919	3,245,130
Public Consumption .....	101,000	157,137	208,943	318,000	673,700
Total Consumption.....	678,623	940,329	1,376,289	2,291,919	3,918,830
Public Gross Fixed Investment ....	61,528	66,160	93,100	169,900	351,800
Private Gross Fixed Investment ...	66,236	87,376	141,367	264,546	469,391
Changes in Inventories .....	9,240	4,974	8,730	6,681	33,106
Total Gross Domestic Investment .....	137,004	158,510	243,197	441,127	854,297
Total Domestic Expenditure .....	815,627	1,098,839	1,619,486	2,733,046	4,773,127
Gross Domestic Product at Constant 1970 Prices .....	323,559	319,729	313,983	325,838	335,853
Annual Percentage Increase at Constant 1970 Prices .....	3.0%	(1.2)%	(1.8)%	3.8%	3.1%
Gross Domestic Product per Capita at Current Prices .....	48,300	64,300	99,300	176,700	278,700

Source: Banco Central



The following table sets forth the contribution to Peru's GDP in constant 1970 prices by major sectors for the years indicated.

**GROSS DOMESTIC PRODUCT BY SECTOR**  
(in percentage)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Agriculture & Forestry .....	12.7	12.9	12.7	12.7	11.6
Fishing .....	1.0	0.9	1.2	1.3	1.2
Mining (including petroleum) .....	6.3	8.1	9.5	10.1	9.5
Manufacturing .....	25.2	24.6	24.1	24.1	25.0
Construction .....	5.6	5.2	4.5	4.5	5.3
Electricity .....	1.1	1.2	1.3	1.3	1.3
Housing .....	3.7	3.9	4.1	4.0	3.9
Government .....	7.6	7.9	8.0	7.7	7.6
Others .....	36.8	35.3	34.6	34.3	34.6
Total GDP .....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: Banco Central

### Prices

Control of inflation while increasing employment is the present administration's principal economic goal. It has implemented a program to restrain the growth of public expenditure and raise domestic output and productivity. Specific measures include broad reduction of subsidies, lowering of tariffs and elimination of quantitative restrictions on imports in order to gradually restore a realistic price structure. Interest rates are being increased to positive levels to foster domestic savings available for investment and reduce the velocity of money. To alleviate supply and marketing bottlenecks which inhibit production, monopolies have been eliminated and distribution systems in key sectors of the economy are being improved. Incentives have been given to increase production in specific sectors such as agriculture, mining and petroleum.

In addition to these initiatives, a tripartite commission composed of representatives from labor, business and government has been established to seek common solutions to the inflation problem. One of the specific purposes of the commission is to encourage wage and price restraint through frequent consultation between the three parties. It is anticipated that the commission will facilitate an open dialogue regarding the formulation and changes in economic policy.

During the 1950's and 1960's, Peru experienced moderate inflation with prices, as measured by the annual change in the Metropolitan Lima Cost of Living Index, rising by approximately 8.0% per year. The pace of inflation began to accelerate in the mid-1970's as a consequence of the rapid increase in the money supply, an expansionary fiscal policy, high import tariffs and declining growth in the supply of domestic production. Though the root causes of inflation began in the early 1970's, it was suppressed through an overvalued currency and price controls creating pressures on international reserves. Consequently, effects of the pent-up inflation were not fully felt until after events forced the adoption of a stabilization program in late 1978.



The following table shows the percent change in the consumer and wholesale price index during recent years.

#### PERCENTAGE CHANGES IN PRICES INDICES METROPOLITAN LIMA

	Consumer Prices		Wholesale Prices
	Average of monthly indices	December to December	Annual Average
1971 .....	6.8%	7.7%	n.a. %
1972 .....	7.2	4.3	n.a.
1973 .....	9.5	13.8	n.a.
1974 .....	16.9	19.2	n.a.
1975 .....	23.6	24.0	23.8
1976 .....	33.5	44.7	38.5
1977 .....	38.0	32.4	46.5
1978 .....	57.8	73.7	76.0
1979 .....	67.7	66.7	70.4
1980 .....	59.2	60.8	53.7

Source: Banco Central

#### Labor

The labor force totalled approximately 5.4 million in 1979, of which some 41% were employed in agriculture, 14% in industry and mining and the balance in the services sector. Modern sector employment has grown at an annual rate of approximately 2% since 1974 with export-related industries accounting for a growing share of the total. Self employment has grown at a faster rate but is concentrated in lower-paying activities. Despite this, the faster growth in the working age population has resulted in a continued high level of underemployment.

To create new job opportunities the government is giving highest priority to promoting labor intensive industries where economically feasible, correcting distortions which unduly favor capital intensive activities, expanding education and vocational training, and eliminating cumbersome government regulations which inhibit job creation. A temporary employment fund has been established through municipal governments to provide minimum level job opportunities for the unemployed.

The following table presents the official statistics for unemployment in the city of Lima. Underemployment is considered to be high, and these figures may not fully reflect the level at which the labor force is utilized.

#### UNEMPLOYMENT RATE IN LIMA

<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
6.8%	8.5%	8.0%	6.5%	7.7%

Source: Banco Central

Approximately 10% of the labor force is unionized. The principal unions are the Confederacion de Trabajadores del Peru (CTP), the Central Nacional de Trabajadores (CNT) and the Confederacion General de Trabajadores del Peru (CGTP).

Peru has a comprehensive system of labor rules and regulations which prescribe, among other things, conditions of employment, working hours, minimum wages, fringe benefits, job descriptions and termination pay. In addition, profit sharing programs exist under which companies in the mining, manufacturing and fishing industries with 30 or more employees are required to pay between 10%

and 25% of net profits to their employees. A portion of such payments is in the form of special non-voting employee shares which may eventually total as much as one-third of a company's equity capital.

The government has begun the task of streamlining the administration of labor rules and regulations in order to eliminate inconsistencies in their application. Moreover, the government is revising existing labor legislation in order to clarify the responsibilities and rights of workers in industrial disputes so as to minimize work stoppages and encourage more employment.

Following rapid increases in the early 1970's, workers' real wages declined to a low point reached during the recession of 1977-78. Since then, real wages have been recovering in line with the growth of the economy.

## MAJOR ECONOMIC SECTORS

### Agriculture

In 1980 the agricultural sector comprised 12% of GDP and 8% of exports, and employed 41% of the labor force. It is characterized by a modern sub-sector which produces the main export crops (sugar, coffee and cotton) and a traditional sub-sector which produces the bulk of the crops for domestic consumption and sustains over three-quarters of the agricultural work force.

In recognition of the importance of agriculture to Peru, the government has initiated new programs to raise the yield on existing acreage through increased irrigation and to expand the areas of cultivation by reclaiming land on the coast, in the mountains and in the jungle area. With respect to agrarian reform, the government has ended further redistribution of land to worker cooperatives and other farmers. It is expediting issuance of titles to properties which have changed hands in order to clarify present tenure.

The December 1980 Agricultural Development Law provides for developing infrastructure to increase the area under cultivation, extending technical and credit support to boost yields and to upgrade marketing. It also fosters agro-industries and commercial farming in new areas, especially on the eastern slopes of the Andes. Among crops suitable for large scale production in new areas are sugar, cacao, coffee, tropical fruits, rice, peanuts, oil seeds and african palm. Potential for increased livestock raising includes beef and dairy cattle in the lower regions as well as sheep in the highlands.

Irrigation is vital to increasing the amount of cultivable acreage in the arid coastal sections of the country, using the abundance of water flowing from the Andes mountains. A number of large projects are underway or in the planning stages that will ultimately serve an area of 855,000 hectares. The government is increasingly sponsoring smaller irrigation projects which require significantly less time and capital to develop.

During the past five years, agricultural output was virtually stagnant. The lackluster performance was the outcome of both a structural problem arising from the scarcity of farmland as well as previous governments' economic policies relating to agrarian reform, price disincentives to farmers, inadequate marketing systems and limited access to credit and technical assistance. In 1980, agricultural activity was severely affected by a prolonged drought which contributed to a 5.5% decline in output. Agricultural output is expected to recover in 1981 as a result of the easing of the drought and because of the government's new policies.

The following table sets forth agricultural and livestock production for the periods indicated.

**AGRICULTURAL AND LIVESTOCK PRODUCTION**  
(Thousands of Metric Tons)

<u>Agricultural Products</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<b>Export Crops</b>					
Sugar .....	929.6	900.3	856.4	695.4	657.7
Cotton .....	157.2	161.7	208.5	255.0	256.4
Coffee .....	65.4	58.5	62.5	103.8	95.0
<b>Cereals</b>					
Rice .....	570.4	587.0	423.6	557.5	420.4
Corn .....	725.7	749.0	632.2	646.3	442.8
Sorghum .....	50.9	51.4	60.0	53.8	35.0
Wheat .....	119.8	120.0	116.0	104.4	77.1
<b>Meat</b>					
Cattle .....	86.6	87.0	89.0	88.5	83.8
Sheep .....	21.3	22.5	22.5	23.4	20.7
Goat .....	9.7	9.5	9.3	9.2	9.0
Pork .....	54.8	54.0	53.0	54.6	55.0
Poultry .....	140.0	143.0	118.6	118.6	143.5
Eggs .....	55.0	56.0	58.0	58.0	60.0
Milk .....	821.3	820.0	822.0	824.0	780.0
Fruits .....	1,089.4	1,033.2	1,062.6	1,091.7	1,103.0
Vegetables .....	339.9	325.2	316.9	324.0	335.1
Tuberous .....	1,942.6	1,869.3	1,890.6	1,852.5	1,379.6

Source: Ministry of Agriculture

#### Forest Products

With 209 million acres of forest containing stands of valuable hardwoods, vast quantities of raw material for pulp and access to ocean transport through the Amazon and its tributaries, Peru has great potential for commercial development of forest products. Some 50 species with commercial potential have been identified and an additional 250 are being studied. The most important lumber centers are Pucallpa and Iquitos which account for 36% of total lumber production, both located in the Selva where substantially all of the forest resources are found.

A wide variety of trees is used for lumber, but oak and cedar account for about 40%. A forest inventory study is currently underway to more fully identify available resources. In 1978, total production of lumber was estimated to be 608 thousand cubic meters and pulp production was approximately 9.9 thousand cubic meters. To encourage private investment in this sector, the government has granted significant tax and credit incentives and is also providing new infrastructure to support development.

#### Fishing

The fishing industry contributes about 1.3% of GDP, but its importance lies in its potential as a source of foreign exchange earnings and employment. During the late 1960's and early 1970's, fishing generated up to one-third of foreign earnings. Traditionally, the industry's base was anchovies, which accounted for about 90% of the total catch and was used in the production of fishmeal and fish oil. However, due to the lack of conservation and other ecological factors, the size of the anchovy catch dropped off sharply in 1973. Because of the crisis, the government embarked on a program to revitalize the fishing industry and to promote diversification into fishing for species suitable for human consumption both for domestic use and export. These efforts quickly proved successful with the catch of food fish increasing sharply. The catch of fish used in fishmeal production, other than the anchovy, also has been steadily increasing and now represents over half

of total fishmeal production. Strict limits have been imposed on anchovy fishing to protect and replenish the currently depleted supply. In 1980, exports of fish and fish products amounted to \$289 million or 8.6% of total exports.

The government has recently announced that it will discontinue its monopoly of the marketing of fishmeal and fish oil. In 1980 Pescaperu, the state fishmeal and marketing company, produced 270,000 metric tons of fishmeal and marketed an additional 180,000 metric tons produced by private companies.

The current fishing policy includes controls to protect the supply of commercial maritime species and encouraging investment in the modernization of fish processing facilities and the fishing fleet to improve their productivity. Increased supply of fresh fish for domestic consumption is being encouraged by a government program to improve small piers, build refrigeration facilities and offer marketing assistance to individual fisherman. The government is also fostering fish farming in inland waters and along the coast.

**FISHING PRODUCTION**  
(Thousands of Metric Tons)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
For Industrial Use					
Anchovy Catch .....	3,863.1	792.1	1,187.0	1,362.7	721.3
Other .....	140.9	1,225.3	1,624.5	1,519.0	1,285.6
For Human Consumption					
Fresh Fish .....	130.6	169.6	176.0	176.7	180.1
Frozen Fish .....	92.5	127.6	190.7	200.5	218.4
Canned Fish .....	98.2	160.2	237.8	345.3	565.2
Salted Fish .....	11.6	16.5	14.3	35.2	28.3

Source: Ministry of Fishing

### Petroleum

Commercial oil production in Peru dates to the nineteenth century and was concentrated in the northwest region both on and offshore until significant reserves were discovered east of the Andes in the early 1970's. Operations in the Selva by Occidental Petroleum and Petroperu now account for the bulk of national production. Crude oil production remained relatively constant from 1970 through 1976 but increased dramatically thereafter, because of the development of production in the Selva made possible by the Trans-Andean pipeline which began operating in 1977.

The ownership and development of the nation's oil resources is under the direction of the state-owned company, Petroperu. Petroperu was established in 1969 as successor to Empresa Petrolera Fiscal and is responsible for: 1) the domestic supply of crude oil and its derivative products; 2) all refining, marketing and basic petro-chemical activities in the country; and 3) all oil and gas exploration and development activities in the country, either alone or through contracts with other companies. Two other major oil companies currently producing are Occidental and Belco Petroleum. A contract was executed in March 1981 for exploration and development in a block of the northwest Selva with the Superior Oil Company. An agreement has been reached between Shell Oil Company and Petroperu covering a large new area in the southeast. Other contracts are under negotiation.

The following table sets forth the nation's proven reserves and production levels of crude oil since 1940. Proven reserves almost doubled in 1974 reflecting the Occidental and Petroperu discoveries in the Selva. Recent geological studies indicate that reserves may be significantly higher.

**PROVEN RESERVES AND PRODUCTION OF CRUDE OIL**  
(1940-1980)

<u>Year</u>	<u>Proven Reserves (millions of Barrels)</u>	<u>Production (thousands of BDP)</u>
1940 .....	174.7	33.2
1950 .....	154.0	41.2
1960 .....	182.2	52.8
1970 .....	274.5	72.0
1971 .....	283.8	61.8
1972 .....	329.3	64.3
1973 .....	362.0	70.3
1974 .....	771.1	77.1
1975 .....	747.3	72.0
1976 .....	727.6	76.4
1977 .....	559.6	91.1
1978 .....	671.6	150.9
1979 .....	657.0	192.0
1980 .....	775.0	195.8

Source: Petroperu

The increase in oil production during the late 1970's enabled Peru to recover its net export capacity in petroleum products beginning in February 1978. Net imports of oil amounted to \$220.9 million in 1977 while net exports were \$145.2 million in 1978. The net export value of oil products rose sharply to \$783.7 million in 1980.

The following table illustrates the historic net export value of petroleum products since 1977 and the projected value for 1981.

**VALUE OF PETROLEUM NET EXPORTS**  
(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981(1)</u>
Export Value .....	\$ 52.2	\$180.0	\$646.0	\$810.0	\$973.0
Import Value .....	273.1	34.8	10.0	26.2	32.4
Net Export (Import) Value .....	<u>\$(220.9)</u>	<u>\$145.2</u>	<u>\$636.0</u>	<u>\$783.8</u>	<u>\$940.6</u>

Source: Banco Central

(1) Projected



Drilling activity declined beginning in mid-1975 as a result of reduced expectations of finding new oil and less favorable government attitude. The announced renegotiations of the production sharing agreement in 1978 and the weakened financial position of Petroperu virtually stopped all exploratory drilling in 1979 and 1980 as shown in the following chart.

#### DRILLING ACTIVITY

	Total New Wells Drilled	New Producing Wells Drilled	Wells Drilled and Abandoned	
			Without Completion	After Completion
1971 .....	27	10	—	17
1972 .....	22	12	—	10
1973 .....	33	20	—	13
1974 .....	38	24	6	8
1975 .....	50	20	20	10
1976 .....	34	22	6	6
1977 .....	33	26	—	7
1978 .....	21	13	—	8
1979 .....	3	—	3	—
1980 .....	2	1	1	—

Source: Petroperu

A prime concern of the new administration was that this decline in exploration, coupled with projected growth in domestic demand reflecting increased economic activity, indicated that the country would again become a net importer of petroleum by the mid-1980's. In order to avoid the enormous potential cost of such a shift, measures were promptly taken to stimulate new exploration and production by contractors and by Petroperu.

The administration's broad policy is to: attract private and foreign investment by improving total return on risk investments, eliminate subsidies by gradually raising domestic prices of petroleum products, and fostering production by Petroperu.

The principal instrument embodying these policies is a new petroleum law (Law 23231) and its regulations. Specific incentives include income tax credits for reinvestments which result in production in new areas, gradual elimination of export taxes and opening up secondary recovery projects to private contractors.

Petroperu, while remaining state owned, has been reorganized into corporate form so as to improve its administrative efficiency. With a strengthened financial position resulting from increased prices for domestic sales, and reduced export taxes, the government has enhanced Petroperu's capabilities to explore and develop those areas in which it will be operating.

Petroperu operates six refineries, the two largest of which account for 90% of total production. Current total primary distillation capacity is 180,000 b/d and the refinery capacity throughput in 1980 was 149,200 b/d. Petrochemical plants include the carbon black installations and a solvents plant which produces acetone and isopropyl alcohol. Petroperu does not currently plan to expand its refining capacity until 1982.

The 530 mile Trans-Andean pipeline has a capacity of 200,000 b/d which can be increased by adding pumping stations along the line. It operated at 44.6% capacity in 1978 and around 60% in 1979 and 1980.

Peru has natural gas reserves of 1.2 trillion cubic feet as estimated at December 31, 1980. The present rate of extraction is approximately 26 million cubic feet a year and is primarily used in the production of fertilizer.

## Mining

Peru is endowed with large deposits of a wide variety of mineral resources. It has been estimated that some 13 metals and 25 non-metallic minerals are mined or quarried and that only 5% of total reserves is presently being exploited. In 1980, mining contributed 9.5% of GDP and over 48.0% of exports. Copper is the leading mineral export, followed by silver, zinc, lead and iron ore. With the exception of the copper and iron deposits on the southern coast, the developed mineral resources are concentrated almost entirely in the Sierra. The largest companies in the industry are Mineroperu, Centromin, Hierroperu (all state-owned) and Southern Peru Copper Corporation (SPCC), the single largest foreign investor in Peru. Together these companies account for two-thirds of total output and 40% of mining employment. The balance includes over 1,000 private producers. Traditionally mining has had the largest foreign participation of any sector.

During the 1970-76 period, only two major mines were developed and mining output was virtually flat. An adverse investment climate restrained private investors while the government's ability to implement major projects proved to be limited. Labor disputes also curtailed production and in 1974-75 world prices for minerals declined sharply. Production rose dramatically in 1977 with the opening of two mines, SPCC's Cuacone and Mineroperu's Cerro Verde, together boosting copper production by 50% and total mineral production by 27%. The present total production capacity of these mines is 162,359 fine metric tons and 33,102 fine metric tons, respectively. As a result of higher prices and increased output, total mineral exports continued at a high level equalling \$1,886 million in 1980.

The government's policy is to increase mining production by promoting as many new projects as possible. The largest and most promising of these include Tintaya, Cerro Verde II, Antamina and Bayovar phosphates. Concessions for the bulk of the identified copper projects are presently held by Mineroperu and Centromin. The state mining companies have been reorganized into corporate form to improve their efficiency and are interested in associations with private investors, both domestic and foreign, in order to develop projects. Private investors may hold up to 100% of certain other concessions. In addition to promoting medium and large scale projects, the government is actively encouraging small producers.

A number of measures have been taken to promote private investment. Under a new mining law, tax incentives provide credits of up to 40% of income taxes payable for reinvestments. Income taxes may be reduced by up to one-third for the period of recovery of investment in new projects, plus five years. The export tax has been reduced and will be phased out by 1983. The monopoly of the state-owned mineral marketing company, Minpeco, has been eliminated. The procedure for the establishment of mixed enterprises with public and private participation has been simplified. COFIDE and Banco Minero are increasing the flow of long term credit for mining development.

The following tables set forth mining output and exports during the past five years.

### MINING OUTPUT (in thousands of units)

	1976	1977	1978	1979	1980
Copper (MT) .....	288	336	376	397	365
Silver (Kg) .....	1,233	1,239	1,280	1,303	1,312
Lead (MT) .....	178	178	183	184	189
Zinc (MT) .....	462	477	458	491	487
Iron Ore (MT) .....	3,138	4,033	3,275	3,622	3,778

**EXPORT VALUE OF PRINCIPAL MINERALS**  
(in millions of dollars)

	1976	1977	1978	1979	1980
Copper .....	\$227.0	\$392.3	\$408.6	\$667.5	\$712.6
Silver .....	145.1	172.5	206.9	389.2	634.3
Lead .....	63.6	81.7	89.7	145.0	100.3
Zinc .....	191.5	163.5	133.0	171.2	212.7
Iron Ore .....	63.5	90.5	73.8	84.9	94.8
Other Minerals .....	26.7	43.7	58.4	104.1	109.5
Total .....	717.4	944.2	970.4	1,561.9	1,864.2

Source: Ministry of Energy and Mines

### Manufacturing

The manufacturing sector accounts for about 24% of GDP and employs 12.7% of the labor force. Over the past decade, manufacturing has become increasingly diversified with a rapid buildup in new capacity. Although most production was consumed by the local market in the past, recent economic policies have fostered export growth. In recent years, manufactured goods exports have become an important source of foreign exchange earnings and contributed to greater export diversification. Principal industries include metalworking, textiles, chemical, steel, automotive, cement, and pulp and paper. The majority of manufacturing establishments are small although production in most industrial sectors is dominated by a few large firms.

In the early 1970's, manufacturers benefitted greatly from increased government spending, high levels of protection provided to import substitution industries, subsidized credit and generous fiscal incentives. During the 1970-74 period manufacturing output grew at an annual rate of approximately 10%. Despite the high growth rate, restrictive legislation and government control of certain industries deemed of strategic importance (such as steel and cement) generated uncertainties among private sector investors, complicated the management function and introduced inefficiencies in many industries. Moreover, the high level of protectionism and government subsidy inhibited competition and productivity growth. By the mid-1970's these deficiencies, combined with a deteriorating economy, led to a slowdown in manufacturing with output dropping on average by 3.6% in 1977 and 1978. Output recovered in 1979 and 1980, rising by 4% and 7%, respectively. The turnaround was due to an overall recovery in the economy coupled with a surge in manufactured goods exports. Worker participation in management and ownership was substantially reduced. Overall, manufacturing output rose at an average annual rate of 1% in real terms during the 1976-80 period.

To restore competition and productivity growth in the manufacturing sector, the government has ended import restrictions, lowered tariffs, reduced price restraints and bureaucratic procedures and eliminated monopolies. The liberalization of the exchange rate has contributed to improved international competitiveness of Peruvian industry which together with an active export promotion program has led to higher manufactured goods exports. As a result of these policies, manufacturing output is expected to increase by 7% per annum in real terms during the next several years.

A new industrial law has been submitted to Congress which simplifies regulation of the sector, increases tax benefits for reinvestments in new and existing industries and encourages the creation of more jobs. Also awaiting congressional action is a proposed law which would create industrial free zones in order to foster labor-intensive industries, principally for export markets.



The following table sets forth the gross output of manufacturing in real terms for 1979 and 1980.

**VALUE OF MANUFACTURING PRODUCTION**  
(in millions of 1973 soles)

	1979	1980	% Change
Food, Beverages and Tobacco .....	24,489	26,883	9.78%
Textiles, Garments and Leather .....	14,512	14,981	3.23
Lumber, Wood Products and Furniture .....	2,176	2,283	4.92
Paper, Printing and Publishing .....	3,902	4,118	5.53
Chemicals and Petrochemicals .....	19,205	21,300	10.91
Non-Metallic Minerals .....	4,289	4,777	11.38
Metals and Machinery .....	13,895	16,316	17.42
Other .....	29,732	29,233	(1.68)
<b>TOTAL .....</b>	<b>112,200</b>	<b>119,891</b>	<b>6.85%</b>

Source: Ministry of Industry  
Banco Central

### Electric Power

A General Electricity Law is being prepared which will establish a clear pricing policy and encourage decentralization to improve efficiency. The country's abundance of rivers provides enormous potential for the development of additional hydroelectric power. It is estimated that Peru's hydroelectric potential is in excess of 50,000 megawatts. A major development plan is underway which includes the construction of eight hydroelectric plants, four thermal plants and six transmission lines. Primary among these projects is the construction of a 600 megawatt hydroelectric facility (Sheque project) on the Santa Eulalia River which includes the diversion of the waters of the Mantaro River to Lima.

Electric power is produced primarily by the state-owned entity, Electroperu; its subsidiary, ElectroLima; and by smaller regional utilities. Tariffs are being increased periodically to support financing for new investment. Some public and private mining and industrial companies also generate power for their own use. The nation's total installed capacity at July 1980 was approximately 3,100 megawatts, 60% hydroelectric power and the balance thermal.

The following table sets forth the installed capacity of electric power by source from 1971-80.

**INSTALLED ELECTRIC POWER GENERATING CAPACITY**  
(1971-1980)

<u>Year</u>	<u>Hydroelectric</u> (megawatts)	<u>Thermal</u> (megawatts)	<u>Total</u> (megawatts)
1971 .....	989.2	807.5	1,796.7
1972 .....	1,056.8	873.2	1,930.0
1973 .....	1,278.3	875.6	2,153.9
1974 .....	1,388.0	876.8	2,264.8
1975 .....	1,397.0	961.5	2,358.8
1976 .....	1,405.8	1,110.0	2,515.8
1977 .....	1,414.8	1,134.6	2,549.4
1978 .....	1,414.8	1,161.4	2,576.2
1979 .....	1,641.3	1,184.2	2,825.5
1980(1) .....	1,869.3	1,218.8	3,088.1

(1) Preliminary  
Source: Electroperu

## Transportation and Communication

The present administration has embarked upon a major development program of the nation's highway system. The government is committed to providing adequate road systems to isolated areas to further social and economic integration. Consequently, nearly 15% of public investment projected for 1981-85 period will be in the transportation sector. Construction has begun on a highway which will link areas of the Selva with the southern coastal areas and improvements are currently being made on the Pan-American Highway. The most ambitious project is to complete construction of the Carretera Marginal de la Selva, a major highway running most of the length of the country on the eastern slopes of the Andes and through the Selva. Some 1,200 kilometers of the 2,500 planned have been opened but much remains to be paved. This artery and a series of planned feeder roads would give access to new areas suitable for cattle raising and commercial scale farming as well as forest product development.

The development of modern transportation services in Peru began in the nineteenth century with the construction of the country's two major railroads, the Central Railroad and the Southern Railroad. The railroads cross the western chain of the Andes in the center and the south, respectively, and traverse parts of the Sierra longitudinally.

The total road network in 1980 was approximately 56,400 kilometers, of which 11% was paved. Another 21% was gravel, and the balance unimproved. Of the two major highways, the Pan-American Highway and the Central Highway, the more important is the Pan-American which runs the entire length of the Costa and links all the major cities of the region. By 1985 the government plans to complete an additional 8,000 kilometers of roads.

About 60% of all inland freight and 90% of all passengers are carried by road. Regularly scheduled common-carrier trucking services exist, but the bulk of truck transport is handled on the basis of individual contracts. A number of bus companies provide regularly scheduled service to the cities of the Costa and major cities of the Sierra. There was a total of 488,000 motor vehicles registered in Peru in 1980.

Air transport plays an essential role in the country due to the lack of integrated ground transportation services. Major Peruvian air carriers are the privately-owned Faucett Airlines and the government-owned Aero Peru. Together they provide service to twenty-eight Peruvian cities and several international destinations. In addition, Lima is served by several foreign-owned airlines linking the capital with major international cities.

Peru depends on ocean shipping for practically all its foreign trade and a significant amount of its domestic freight. There are thirteen major ports along the Pacific coast, the most important being Callao which handles 65% of all imports and 40% of all exports. Numerous shipping lines offer service to all major western hemisphere, European and Asian ports.

The 5,400 miles of navigable tributaries of the Amazon provide virtually the only form of transportation for much of the Selva. Iquitos is the largest Peruvian port on the Amazon and is served by ocean-going vessels. Ferry service across Lake Titicaca on the border with Bolivia provides a water link between the railroad systems of the two nations.

Communications facilities are principally owned by the state and include telephone, telegraph, telex and radiotelephone services. These facilities connect major population centers within Peru and provide international service. The government-owned telecommunications company, Entelperu, is expanding the number of telephone lines to meet growing demand. There are 14 television stations and 192 radio stations operating in Peru under government licenses. Twenty-one daily newspapers are published in Peru, eight of which are based in Lima.

## Education, Housing and Social Welfare

The government is deeply committed to improving its social services to all segments of the population. To this end, it plans to devote 25% of public investment during the 1981-85 period to

education, housing and health programs, almost double the amount provided in the previous five years.

In education, the government has implemented a new policy which includes the financial restructuring of the educational system to improve its quality, increasing tax incentives to encourage private donations to educational and cultural organizations and the building of additional schools throughout the country. Emphasis is also being placed on expanding vocational training programs to upgrade labor force skills. The core of the educational system is a six-year primary education program supplemented by a secondary school system and thirty-three universities, the largest being the University of San Marcos, established in 1551 and the oldest university in the western hemisphere. Primary enrollment increased by more than 1.7 times the growth in the school-aged population during the 1970's. Large gains in enrollment also took place at the secondary level and in the universities. Adult literacy rate in 1976 was estimated to be 72%.

A new housing policy has been instituted to encourage maximum participation of the private sector in new construction. Additional financial resources are being channelled into this sector to encourage the construction of low cost housing in order to relieve the acute shortage which exists particularly in urban areas. Under the Cooperacion Popular program, the government is also promoting construction of schools, medical facilities and housing by community groups which can build relatively simple structures with tools and other materials supplied by the government.

In the area of health care, the government's policy includes efforts to improve preventive health techniques in addition to traditional disease treatment. The construction of seven hospitals has begun as part of a program to improve health facilities throughout the nation. A new pyramidal structure of health care facilities is being developed to improve efficiency in use of medical resources. It is based on a broad network of primary health care installations to provide routine medical services and free up local, regional and specialized hospitals to concentrate on cases requiring more sophisticated treatment.

## THE EXTERNAL ECONOMY

### Foreign Trade

Foreign trade has always played a central role in Peru's economic development. Exports have become increasingly diversified in recent years, reducing the country's vulnerability to changes in world demand for any one product. Leading exports are petroleum, copper and other minerals, fishmeal, and non-traditional products including manufactured goods, processed food and frozen and canned fish. Of lesser importance are traditional agricultural exports of sugar, coffee, cotton and wool. Imports consist mainly of essential foodstuffs, intermediate goods and capital goods. In 1980, exports and imports were equal to 23% and 18% of GDP, respectively.

During the 1976-80 period, the value of exports increased at an annual rate of 30%. The largest increase occurred in 1979 when exports surged by 79%, partially in response to tax incentives for non-traditional exports. In that year, the total value of petroleum exports was \$645.7 million, three times higher than in 1978. Exports of copper, lead and zinc also increased significantly, principally because of the rise in world prices. In 1980, exports grew by 11.2% with the largest increases coming from silver and petroleum.

High tariffs and import restrictions on a broad range of goods limited the growth of imports prior to 1980. As part of its trade liberalization program, the government in 1980 substantially reduced the level of tariffs from a maximum nominal duty of 155% to 60% with an average nominal duty of 34.5%, and eliminated prior permits and quantitative restrictions on imports. Of the 5,103 items listed in the Peruvian schedule, 4,979 may now be freely imported, whereas as recently as March 1979 only 2,430 items were not restricted. The government has announced that it will reduce the average tariff to about 25% by 1984. Partially as a result of this policy, the value of imports rose by 58.7% in 1980. Overall, imports increased by an average annual rate of 10.2% during the 1976-80 period.

The following tables set forth Peru's exports and imports by commodity.

# EXPORTS BY MAJOR COMMODITIES

(value in thousands of dollars)

	1976	1977	1978	1979	1980(1)
<b>Fishmeal</b>					
Value .....	\$ 177,500	\$ 179,000	\$ 191,800	\$ 236,961	\$ 191,779
Volume (thousands MT) .....	625	430	483	653	416
Price (US\$/MT) .....	284.00	416.28	397.10	363.00	460.56
<b>Fish Oil</b>					
Value .....	303	870	1,113	22,512	—
Volume (thousands MT) .....	5	4	6	56	—
Price (US\$/MT) .....	64.22	197.73	200.00	402.00	—
<b>Other Fish Products</b>					
Value .....	22,876	35,285	44,587	71,953	97,197
Volume (thousands MT) .....	48	70	93	143	145
Price (US\$/MT) .....	478.53	504.00	480.36	503.16	672.50
<b>Cotton</b>					
Value .....	70,905	48,048	38,062	49,329	71,565
Volume (thousands qq) .....	776	462	394	434	701
Price (US\$/qq) .....	91.37	104.00	96.53	113.66	102.14
<b>Sugar</b>					
Value .....	91,178	74,210	51,656	34,319	13,089
Volume (MT) .....	296,081	389,526	290,731	180,790	52,816
Price (US\$/qq) .....	14.17	8.76	8.17	8.73	11.40
<b>Coffee</b>					
Value .....	101,000	196,300	168,241	244,761	141,257
Volume (MT) .....	42,800	43,000	53,509	69,471	44,228
Price (US\$/qq) .....	108.00	210.00	144.63	162.06	146.92
<b>Wool</b>					
Value .....	18,706	18,080	23,216	33,520	31,900
Volume (MT) .....	7,524	3,145	4,440	5,756	3,435
Price (US\$/MT) .....	2,486	5,749	5,229	5,823	9,287
<b>Copper</b>					
Value .....	226,969	392,346	408,590	667,459	712,558
Volume (MT) .....	181,900	331,300	343,865	373,264	350,454
Price (US ¢/lb) .....	56.60	53.72	53.90	81.11	92.22
<b>Iron Ore</b>					
Value .....	63,500	90,538	73,822	84,854	94,796
Volume (thousands NLT (2) ) .....	4,470	6,122	4,778	5,749	5,730
Price (US\$/NLT (2) ) .....	14.20	14.79	15.45	14.76	16.54
<b>Silver</b>					
Value .....	145,138	172,535	206,930	389,236	634,255
Volume (thousands troy oz.) .....	37,777	39,910	41,628	41,880	34,985
Price (US ¢/troy oz.) .....	384.20	432.31	497.09	929.00	1,813.00
<b>Lead</b>					
Value .....	63,593	81,743	89,682	145,045	100,336
Volume (MT) .....	179,836	171,640	176,399	163,926	151,653
Price (US ¢/lb) .....	16.04	21.60	23.06	40.13	30.00

# EXPORTS BY MAJOR COMMODITIES—CONTINUED

(value in thousands of dollars)

	1976	1977	1978	1979	1980(1)
Zinc					
Value .....	191,500	163,500	133,047	171,172	212,660
Volume (MT) .....	432,300	433,900	436,721	417,912	469,549
Price (US ¢/lb) .....	20.09	17.10	13.82	18.57	20.54
Petroleum and derivatives					
Value .....	53,344	52,224	179,815	645,688	809,941
Volume (thousands bbls) .....	4,742	4,104	13,775	23,570	22,610
Price (US\$/bbl) .....	11.25	12.73	13.05	27.00	35.82
Other Products .....	132,968	220,921	330,091	677,228	751,987
Total Value .....	<u>\$1,359,480</u>	<u>\$1,725,600</u>	<u>\$1,940,652</u>	<u>\$3,474,037</u>	<u>\$3,863,320</u>

(1) Preliminary

(2) Net Long Tons

SOURCE: Banco Central

# IMPORTS BY PRINCIPAL PRODUCTS

(in millions of dollars)

	1976	1977	1978	1979	1980(1)
Foodstuffs .....	\$ 215.1	\$ 182.1	\$ 161.4	\$ 212.2	\$ 367.3
Wheat .....	105.1	86.6	76.8	128.5	139.3
Maize .....	29.7	26.8	14.3	14.8	66.9
Sugar .....	—	—	—	—	29.5
Rice .....	17.9	—	—	38.3	61.7
Soy bean oil .....	28.2	36.0	45.5	14.4	23.5
Dairy products .....	24.3	17.4	15.7	15.9	43.4
Others .....	9.9	15.3	9.1	0.3	3.0
Other Consumer Goods .....	130.6	146.4	86.8	123.5	258.4
Raw Material and Intermediate Goods .....	862.6	893.8	589.7	728.5	938.2
Fertilizers .....	4.1	10.6	12.7	12.9	15.7
Petroleum and derivatives .....	260.6	268.9	34.8(2)	10.0(2)	26.3(2)
Metallurgical coke, coils and tin plate .....	15.0	26.9	36.5	42.4	112.9
Others .....	582.9	587.4	505.7	663.2	783.3
Capital Goods .....	675.2	468.6	458.0	674.2	971.2
Public Sector .....	454.2	274.2	264.5	286.8	395.5
Investment projects (externally fi- nanced) .....	342.1	245.7	235.7	240.8	319.4
Others .....	112.1	28.5	28.8	46.0	76.1
Private Sector .....	221.0	194.4	193.5	387.4	575.7
Direct Investment .....	43.1	52.0	61.0	184.4	108.5
Others .....	177.9	142.4	132.5	203.0	467.2
Other Goods .....	216.5	473.1	304.6	212.9	561.2
Total .....	<u>\$2,100.0</u>	<u>\$2,164.0</u>	<u>\$1,600.5</u>	<u>\$1,951.3</u>	<u>\$3,096.3</u>

(1) Preliminary

(2) Includes derivatives only

Source: Banco Central



## Balance of Payments

In 1979 Peru recorded a trade surplus of \$1,522.7 million. This resulted from a 79% increase in exports with almost all export categories showing strong gains, most particularly petroleum, copper and manufactured goods. The continuation of import restrictions and the slow recovery in manufacturing limited the rise in imports to 21.9%. Despite a 67% increase in financial service payments, mainly interest, Peru recorded a current account surplus of \$711.1 million, the first since 1970. A high level of long-term capital inflows coupled with reduced amortization payments due to refinancing resulted in an overall balance of payments surplus of \$1,578.9 million. By year end 1979, net international reserves were \$553.8 million.

In 1980, the trade balance surplus was reduced to \$767.0 million largely because of a 58.7% increase in imports due to the recovery in domestic economic activity, higher imports of foodstuffs because of a drought and the government's trade liberalization policy. Exports continued to show strength, rising by 11.2%. The reduced surplus and continued high level of capital inflows, mainly in the form of public sector loans, resulted in an overall balance of payments surplus of \$731.2 million.

A slow gain in exports coupled with strong growth in imports is expected to reduce the balance of trade surplus in 1981. This, combined with a high deficit on services, will result in a higher current account deficit. Nevertheless a continued high level of long-term capital inflows is expected to produce an overall balance of payments surplus, thus enabling Peru to maintain a comfortable level of international reserves throughout 1981.

The strong balance of payments performance in recent years represents a dramatic turnaround in the country's external position. In 1974 and 1975, Peru's balance of payments situation deteriorated sharply. The trade balance went from a surplus position of \$78.8 million in 1973 to a deficit of \$1,099.3 million in 1975. This, coupled with a growing service account deficit, caused current account deficits of \$807.0 million in 1974 and \$1,538.4 million in 1975. The large imbalance resulted from the combination of expansionary fiscal and monetary policies and rapidly rising world prices on the import side and, on the export side, from the collapse of the fishing industry and a fall in world mineral prices. The current account deficits were financed with foreign borrowings, which raised public external debt from \$1.4 billion at year end 1973 to \$3.1 billion at the end of 1975.

The trade balance began to improve in 1976 and 1977, but sharply rising interest payments caused by Peru's growing external debt burden resulted in large current account deficits. The deficits became increasingly difficult to finance because of concern by the international financial community over the high level of external borrowing and the government's seeming unwillingness to adopt the necessary measures to reduce the imbalance. Although public sector borrowing abroad continued, it was insufficient to cover all of Peru's needs and as a result foreign exchange reserves declined.

By mid-1978, the situation had reached crisis proportions. Peru's international reserves were severely depleted, import payments were delayed and it was clear that Peru would be unable to meet all of its debt repayments. As a result, a new economic team implemented a stabilization program to reverse the balance of payments situation and entered into negotiations with international lenders to restructure a portion of its external debt.

The fiscal austerity programs proved successful, lowering the current account deficit to \$191.8 million in 1978. Imports dropped by 27% as a result of a domestic recession, the devaluation of the sol, a liquidation of inventories built up in the prior year and the attainment of self-sufficiency in petroleum.

A 12.5% increase in exports also helped swing the trade balance into a surplus position of \$340.2 million. Moreover, the improvement in the current account balance in conjunction with the debt

rescheduling and the receipt of support funds from abroad enabled Peru to generate an overall balance of payments surplus of \$75.9 million as compared to negative balances of \$349.1 in 1977 and \$867.5 in 1976.

The following table sets forth Peru's balance of payments for the years indicated.

**BALANCE OF PAYMENTS**  
(in millions of dollars)

	1976	1977	1978	1979	1980(1)
<b>GOODS AND SERVICES</b>					
Exports .....	\$ 1,359.5	\$ 1,725.6	\$ 1,940.7	\$ 3,474.0	\$ 3,863.3
Imports .....	-2,100.0	-2,164.0	-1,600.5	-1,951.3	-3,096.3
<i>Balance of Trade</i> .....	-740.5	-438.4	340.2	1,522.7	767.0
Freight .....	-60.7	-56.4	-6.7	3.0	-36.6
Investment Income .....	-366.4	-426.4	-577.7	-966.5	-831.3
(Public) .....	(-275.4)	(-299.6)	(-420.2)	(-483.7)	(-483.4)
(Private) .....	(-91.0)	(-126.8)	(-157.5)	(-482.8)	(-347.9)
Government Transactions .....	-12.2	-23.4	-22.0	-25.6	-22.4
Miscellaneous Transport Charges .....	-93.4	-88.4	-76.0	-74.1	-99.2
Travel .....	44.7	75.6	107.8	143.6	98.2
Other Services .....	-21.3	-25.6	-13.4	-14.0	-140.4
<i>Balance of Services</i> .....	-509.3	-544.6	-588.0	-933.6	-1,031.7
Transfer Payments .....	57.8	56.8	56.0	122.0	132.9
<i>Current Account Balance</i> .....	\$ -1,192.0	\$ -926.2	\$ -191.8	\$ 711.1	\$ -131.8
<b>CAPITAL ACCOUNT</b>					
Direct Investment .....	\$ 170.8	\$ 54.1	\$ 25.0	\$ 71.0	\$ -64.2
Private Loans .....	25.0	15.0	13.8	-31.8	64.5
Public Sector Loans .....	479.7	604.7	382.5	636.5	627.5
Total Long-Term Capital .....	675.5	673.8	421.3	675.7	627.8
<i>Net Basic Balance</i> .....	-516.5	-252.4	299.5	1,386.8	496.0
Total Short-Term Capital .....	-387.7	-114.3	-75.5	122.9	171.3
Errors and Omissions .....	36.7	17.6	-78.1	69.2	63.9
<i>Overall Balance</i> .....	\$ -867.5	\$ -349.1	\$ 75.9	\$ 1,578.9	\$ 731.2

(1) Preliminary

Source: Banco Central

### Foreign Exchange

The foreign exchange system has been considerably liberalized for trade and capital transactions. Procedures to obtain foreign currencies for import payments have been speeded up and simplified while blocked deposits of export proceeds have been sharply reduced, and in certain export categories, eliminated. Foreign exchange dealers have been permitted wider scope of operation. Domestic contracts may now be denominated in foreign currencies. This easing trend is expected to continue.

The exchange rate for the sol is set by Banco Central in relation to the U.S. dollar and is adjusted frequently based largely on domestic and international inflation rates. All exchange transactions must be conducted through the banking system and authorized foreign exchange dealers.

Banks and non-bank financial institutions may open foreign currency denominated demand and time deposit accounts for resident and non-residents. In addition, banks may issue negotiable certificates of deposit denominated in foreign currencies. Funds deposited in these accounts or for the purchase of certificates must be derived from capital inflows or export receipts. The maturity of the certificates may range from 30 to 360 days and can be used by the holder to make payments and transfers, including import payments. All foreign exchange receipts of residents must be sold to the banking system, deposited in foreign currency accounts, or be used to purchase foreign currency certificates of deposit.

The following table sets forth the buying and selling rates for U.S. dollars quoted by Banco Central as of the last business day of the years indicated.

	<u>Buying Rate</u>	<u>Selling Rate</u>
1976 .....	69.37	69.37
1977 .....	130.04	130.72
1978 .....	195.69	196.68
1979 .....	249.50	250.75
1980 .....	340.84	342.61

Source: Banco Central

#### International Reserves

The following tables set forth Peru's international reserves for the periods indicated.

#### INTERNATIONAL MONETARY RESERVES (in millions of dollars)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Gross International Reserves:					
Banco Central					
Gold .....	\$ 79.4	\$ 79.4	\$ 75.2	\$ 175.4	\$ 432.0
SDR .....	3.8	3.3	10.6	113.7	44.1
Foreign Exchange .....	206.5	292.4	341.8	912.2	1,647.4
Other Funds .....	17.6	42.0	41.2	99.4	93.2
	<u>307.3</u>	<u>417.1</u>	<u>468.8</u>	<u>1,300.7</u>	<u>2,216.7</u>
Commercial Banks .....	0.1	17.3	119.7	127.5	88.9
Other Banks .....	60.3	23.0	3.9	430.1	251.1
Total Gross Intern. Reserves .....	<u>367.7</u>	<u>457.4</u>	<u>592.4</u>	<u>1,858.3</u>	<u>2,556.7</u>
Foreign Liabilities:					
Banco Central .....	486.0	901.0	1,060.5	874.5	734.5
I.M.F. ....	(219.6)	(231.7)	(346.6)	(519.9)	(560.5)
Other Banks .....	(266.4)	(669.3)	(713.9)	(354.6)	(174.0)
Commercial Banks .....	127.9	166.1	100.7	46.9	62.2
Other Banks .....	505.6	491.2	456.2	382.9	475.0
Total Foreign Liabilities .....	<u>1,119.5</u>	<u>1,558.3</u>	<u>1,617.4</u>	<u>1,304.3</u>	<u>1,271.7</u>
Net International Reserves .....	<u>-751.8</u>	<u>-1,100.9</u>	<u>-1,025.0</u>	<u>554.0</u>	<u>1,285.0</u>

Source: Banco Central



## THE FINANCIAL SYSTEM

### The Banking System

The government is preparing a new banking law to liberalize and modernize the regulation of the banking system while assuring its financial soundness. The banking system is composed principally of Banco Central de Reserva del Peru (Banco Central), Banco de la Nacion, seven commercial banks (three government-owned and four privately-owned), four foreign commercial banks with full branches, eight development banks (five government-owned, three privately-owned) and one government-owned, special function bank, Caja de Ahorros.

Banco Central regulates the money supply, credit, interest rates and the exchange rate of the currency and manages the country's international reserves. This institution is autonomous, as provided in the Constitution and is highly influential in the formulation and implementation of economic policy.

Banco de la Nacion, wholly-owned by the government, is the largest commercial bank. As of December 31, 1980 it had assets of approximately \$2,850 million and accounted for 28% of all loans in the banking system. It acts as a financial agent for the central government and provides banking services to the public and private sectors. Banco de la Nacion also receives tax payments, is the depository for all government funds and holds the government's shares in three formerly private commercial banks: Banco Continental, Banco International and Banco Popular. Each of these operates independently.

The major private commercial banks are Banco de Credito del Peru, Banco Wiese, Banco Comercial del Peru and Banco de Lima. Foreign banks with branches operating in Peru are Bank of America, Bank of London and South America, Bank of Tokyo and Citibank. In addition, 21 foreign banks maintain representative offices in Peru.

The Caja de Ahorros functions as a savings bank and also has a large volume of secured loans to low income customers whose collateral is physically held by the bank.

Five government-owned development banks provide credit to the housing, agriculture, industry and mining sectors. Banco Central Hipotecario del Peru, established in 1929, makes loans principally to residential borrowers and to a lesser extent industrial and commercial builders. It funds itself through savings accounts and mortgage bonds. Banco de la Vivienda del Peru, founded in 1962, aids and supervises the private savings and loan associations. It also accepts savings accounts, grants home loans and issues mortgage bonds. Banco Agrario del Peru, founded in 1931, is the main source of agricultural credit for small and medium sized farmers and agricultural cooperatives. The government development bank for industry is Banco Industrial del Peru, established in 1936. Its functions include extending credit to industrial firms, promoting export programs, selling bonds to the public and contracting foreign loans to finance its loan portfolio. Banco Minero del Peru makes loans to small and medium sized mining companies, participates with them on a partnership basis and provides technical and marketing assistance. All the development banks provide medium- and long-term credit, as well as short-term financing to their clients.

### Non-Bank Financial Institutions

The main non-bank financial institutions are the Corporacion Financiera de Desarrollo (COFIDE), ten private financial corporations (financieras), insurance companies, and savings and loan associations and cooperatives. COFIDE has been reorganized recently to better utilize its human and financial resources and expand its role as the chief financial promoter of the development of public and private enterprises. The government-owned institution acts as a financial agent of the state and raises funds both domestically and internationally for state-owned and private enterprises. COFIDE also acts as an equity investor and has an important portfolio in shares of a number of companies and supervises investment projects in which it is an equity participant.

An important function of financieras is to provide medium-term loans; so far commercial banks are only permitted to lend funds for up to one year. Activities of the financieras vary, and include lending to industrial and commercial firms, underwriting securities and leasing.

Savings and loan associations mainly provide residential construction financing. They are supplemented by the savings and loan cooperatives which make loans to their members only.

The Superintendencia de Banca y Seguros controls and supervises all banks and non-bank financial institutions to assure their financial integrity.

### Monetary Policy

Current monetary policy reflects the present administration's goal of reducing inflation while encouraging continued development of the private sector. The 1981 projected growth rate in credit expansion to the private sector is 7% in real terms, while the projected decline in public sector net credit is 22%. To stimulate savings and the more rational allocation of resources, interest rates for most deposits and loans are now positive in real terms. Banco Central is committed to exercising firm control over interest rates and credit to the public sector in order to reduce inflation.

In past years monetary policy was largely determined by the need to finance the government deficit. Beginning in the early 1970's, the size of the deficit began to rise, causing a sharp increase in credit to the public sector. Private sector credit also grew, but at a lower rate. This highly expansionary policy resulted in a large build up in excess demand and consequently a high rate of inflation.

Following the implementation of an economic stabilization program in 1978, the growth in credit to the public sector has been sharply reduced. In addition, interest rates have been allowed to rise to more realistic levels to reflect inflation. As part of the revitalization program, credit to the private sector has been substantially increased and reserve requirements on domestic currency deposits are being progressively reduced. Overall, domestic credit has grown by less than the rate of inflation in the past two years.

The following table sets forth the sources and uses of funds in the national banking system for the periods indicated.

#### SOURCES AND USES OF FUNDS IN NATIONAL BANKING SYSTEM

	(in millions of soles)				
	1976	1977	1978	1979	1980(1)
<b>Sources:</b>					
Currency in Circulation . . . . .	49,505.5	60,795.0	90,972.5	162,004.7	274,600.0
Deposits . . . . .	101,733.7	137,237.2	226,849.2	498,282.9	893,000.0
Bonds (excluding Government Bonds) . . . . .	2,345.2	3,045.2	3,409.2	3,733.0	9,500.0
Capital Resources . . . . .	39,744.9	53,956.6	86,312.5	166,978.3	234,700.0
Net Medium and Long Term Credit . . . . .	50,915.1	56,152.2	52,064.2	57,562.4	68,100.0
Government Deposits in Banking System . . . . .	78,088.5	85,212.9	121,854.8	204,886.5	198,200.0
<b>TOTAL . . . . .</b>	<b>322,332.9</b>	<b>396,399.1</b>	<b>581,462.4</b>	<b>1,093,447.8</b>	<b>1,678,100.0</b>
<b>Uses:</b>					
Credit to the Public Sector . . .	245,533.6	310,510.8	409,566.8	421,558.2	526,500.0
Credit to the Private Sector . .	141,578.4	176,977.6	239,287.4	405,609.4	725,500.0
Other Assets, Net . . . . .	55,500.1	129,086.9	137,608.3	106,744.3	56,000.0
Total Domestic Credit . . . . .	442,612.1	616,575.3	786,462.5	933,911.9	1,308,000.0
International Reserves, Net . .	-120,279.2	-220,176.2	-205,000.2	159,535.9	370,100.0
<b>TOTAL . . . . .</b>	<b>322,332.9</b>	<b>396,399.1</b>	<b>581,462.3</b>	<b>1,093,447.8</b>	<b>1,678,100.0</b>

Source: Banco Central

(1) Preliminary Data

The following table presents money supply statistics for the periods indicated.

### MONEY SUPPLY

(in millions of soles)

<u>December 31</u>	<u>Currency in Circulation</u>	<u>Deposits(2)</u>	<u>Bonds</u>	<u>Total Money Supply</u>
1976 .....	49,505.5	101,733.7	2,345.2	153,584.4
1977 .....	60,795.0	137,237.2	3,045.2	201,077.4
1978 .....	90,972.5	226,849.2	3,409.2	321,230.9
1979 .....	162,004.7	498,282.9	3,733.0	664,020.6
1980(1) * .....	274,600.0	893,000.0	9,500.0	1,177,100.0

(1) Preliminary

(2) Includes sight and time deposits, mortgage certificates, foreign currency deposits and foreign currency certificates.

Source: Banco Central

### PUBLIC FINANCE

To restore the financial soundness of the public sector, the government has taken a number of steps to increase public revenues and control the growth in expenditures. A major reorganization of the tax administration system has been undertaken. The structure of government and its operations are being rationalized to increase its efficiency and new public investment is being more closely scrutinized to assure that resources are channelled to high priority areas. Tighter controls have been placed on both domestic and foreign borrowings. As a result of these policies, the size of the public sector deficit is expected to be reduced in the next several years.

The public sector, excluding government-owned financial institutions, is composed of the central government, state enterprises, decentralized agencies, and the Social Security Institute. Public sector spending began to increase rapidly in the early 1970's as a consequence of the government's growing role in promoting economic growth. This included a number of new state enterprises created to engage in a variety of industrial activities. Public sector revenues did not keep pace with expenditures and by the mid-1970's, the overall public sector deficit had reached alarming levels. During the 1975-77 period, it represented approximately 10.0% of GDP as compared to 1.7% during the 1970-72 period.

A fiscal stabilization program was implemented in 1978 to reduce the size of the deficit. Measures were adopted to increase public sector revenues and austerity was imposed on expenditures. As a result of this program and recovery in the economy, the size of the deficit was drastically reduced to 5.1% of GDP in 1978 and to 1.8% in 1979. The deficit increased again in 1980 to 6.0% of GDP owing to a policy of increasing real incomes and public investment.

The central government budget for 1981 is based on a continuing increase in revenues resulting from a growth in GDP, increased foreign trade and improved tax collections. Expenditures are projected to grow at a moderate rate with real wages being maintained and indiscriminate government subsidies eliminated.

The principal state-owned enterprises are Petroperu (petroleum), Enci and Ecasa (food, intermediate and consumer products), Pescaperu (fishing), Mineroperu and Centromin (mining), Minpeco (refining and marketing minerals), Electroperu (electricity), Siderperu (steel) and Entelperu (telecommunications). To improve the efficiency of the state-owned enterprises, the government has reorganized them into corporate form to decentralize management decision-making and accountability.

The following tables set forth a summary of revenues and expenditures for the central government and public enterprises for the periods indicated.

# SUMMARY OF REVENUES AND EXPENDITURES OF THE CENTRAL GOVERNMENT

(in millions of soles)

	1976	1977	1978	1979	1980(1)
Current Revenues .....	111,397	154,052	263,700	552,230	1,013,400
Tax Revenue .....	98,002	139,183	243,600	495,780	941,605
Taxes on Net Income and Profits .....	22,999	30,386	43,000	117,655	297,500
Taxes on Property .....	4,318	8,980	11,300	18,209	33,100
Import Duties .....	17,952	19,658	39,100	68,149	158,300
Export Duties .....	6,292	16,179	31,900	88,289	123,400
Taxes on Goods and Services .....	46,851	66,772	121,600	227,262	379,100
Other .....	2,593	3,672	10,500	12,459	30,500
Adjustment for Taxes Paid with Government Debentures .....	-3,003	-6,464	-13,800	-36,243	-85,900
Non-Tax Revenue .....	13,395	14,869	20,100	56,450	77,600
Current Expenditures .....	122,718	193,092	291,000	459,041	954,000
Wages and Salaries .....	42,212	55,441	79,100	122,064	242,900
Purchases of Goods and Services .....	45,128	83,893	103,000	139,627	331,000
Current Transfers .....	22,200	24,586	37,100	59,199	166,200
Interest Payments .....	13,178	29,172	71,900	138,151	213,900
Domestic .....	( 5,500)	( 13,552)	( 32,700)	( 81,998)	( 92,200)
Foreign .....	( 7,678)	( 15,620)	( 39,200)	( 76,153)	( 121,700)
Current Account Balance .....	-11,321	-39,040	-27,300	93,189	59,400
Capital Expenditures .....	37,111	40,103	57,600	128,556	266,000
Overall Balance .....	-48,432	-79,143	-84,900	-35,367	-206,600
Financing .....	48,432	79,143	84,900	35,367	206,600
External Financing (Net) .....	15,803	34,789	7,885	-7,600	59,800
Borrowing .....	24,092	57,805	74,500	112,600	241,800
Amortization .....	-8,289	-23,016	-66,615	-120,200	-182,000
Internal Financing (Net) .....	32,629	44,354	77,015	42,967	146,800

(1) Preliminary

Source: Banco Central

## CENTRAL GOVERNMENT OPERATIONS AS A PERCENTAGE OF GDP

	1976	1977	1978	1979	1980(1)
Current Revenues .....	14.5	14.7	15.8	18.1	20.5
Current Expenditures .....	16.0	18.4	17.4	15.0	19.3
Current Account Balance .....	-1.5	-3.7	-1.6	3.1	1.2
Capital Expenditures .....	4.8	3.8	3.4	4.2	5.4
Overall Balance .....	-6.3	-7.5	-5.0	-1.1	-4.2

(1) Preliminary

Source: Banco Central

**SUMMARY OF REVENUES AND EXPENDITURES OF PUBLIC ENTERPRISES**  
(in millions of soles)

	1976	1977	1978	1979
Current Revenues .....	140,540	221,685	387,469	821,300
Sales of Goods and Services .....	135,739	219,437	382,487	820,500
Current Transfers .....	4,801	2,248	4,982	800
Current Expenditures .....	143,050	221,542	374,874	778,200
Consumption				
Wages and Salaries .....	17,628	21,639	29,154	43,100
Purchases of Goods and Services .....	114,141	179,247	270,782	565,700
Interest Payments .....	6,356	13,784	20,467	38,800
Current Transfers .....	4,925	6,872	54,471	130,600
Public Sector .....	—	—	—	—
Rest of Public Sector .....	4,925	6,872	54,471	130,600
Current Account Balance .....	— 2,510	143	12,595	43,100
Capital Revenues .....	10,932	9,796	10,656	17,100
Capital Transfers .....	10,294	9,141	10,656	17,100
Other Revenues .....	638	655	61	—
Capital Expenditures .....	40,326	38,477	46,592	68,700
Gross Capital Formation .....	39,848	37,333	46,583	66,600
Financial Investment .....	403	593	—	800
Other Capital Expenditures .....	75	551	9	1,300
Overall Balance .....	— 31,904	— 28,538	— 23,341	— 8,500
Financing .....	31,904	28,538	23,341	8,500
External Financing (Net) .....	10,906	15,199	35,801	4,100
Borrowing .....	17,229	21,919	44,516	58,300
Amortization (—) .....	— 6,323	— 6,720	— 8,715	— 54,200
Internal Financing (Net) .....	20,998	13,339	— 12,460	4,400
Bank Financing (Net) .....	5,954	— 40	— 5,026	— 6,400
Others (1) .....	15,044	— 13,379	— 7,434	10,800

**PUBLIC ENTERPRISE OPERATIONS AS A PERCENTAGE OF GDP**

	1976	1977	1978	1979
Total Revenues .....	19.7	22.0	23.8	27.5
Current Expenditures .....	18.6	21.0	22.4	25.5
Current Account Balance .....	— 1.1	1.0	0.8	1.4
Capital Expenditures .....	5.2	3.7	2.8	2.2
Overall Balance .....	— 4.1	— 2.7	— 1.4	— 0.2

(1) Includes foreign currencies not included in the External Financing (Net) item.

Source: Banco Central



## EXTERNAL DEBT

The government has instituted a new system designed to rationalize its control of foreign borrowings and to prevent excessive growth in external public debt as occurred in the mid-1970's. A new foreign borrowing law has been enacted which requires Congress to set an annual ceiling on new foreign public borrowings, establishes a queuing system to regulate the flow of such borrowings into international markets and grants exclusive authority to Banco de la Nacion and COFIDE to act as borrowing agents for public sector foreign debt. A new commission, PROINVERSION, has been established under the office of the Prime Minister to monitor and supervise foreign borrowings of the public sector so as to assure such funds are channelled to high priority projects only. It also supervises the queuing and terms of each external public borrowing. Partially as a result of these initiatives, Peru has obtained significantly improved terms on recent international financings.

To increase the soft loan component of its external debt, Peru is actively seeking to increase the flow of funds from international development institutions. In this regard, PROINVERSION is organizing yearly consultative group meetings with major official lending institutions to present Peru's public investment program and its requirements for external funding. As a result of this policy, the proportion of concessionary financing is increasing.

Peru's external debt grew rapidly in the mid-1970's due to high current account deficits and the need to finance public sector expenditures. The long-term foreign indebtedness of the public sector (excluding Banco Central) increased from \$2.2 billion in 1974 to \$5.1 billion in 1978.

The following table sets forth total external debt of the public and private sectors from 1976-80.

### TOTAL EXTERNAL DEBT

(in millions of dollars)

	1976	1977	1978	1979	1980
Long Term .....	\$4,865.2	\$6,263.2	\$7,225.4	\$7,940.8	\$8,436.8
Public Sector .....	3,554.4	4,937.4	5,885.8	6,633.0	7,064.5
Central Government and Public Sector					
Agencies and Enterprises .....	3,554.4	4,311.3	5,134.6	5,758.5	6,330.1
Banco Central .....	—	626.1	751.2	874.5	734.4
Private Sector .....	1,310.8	1,325.8	1,339.6	1,307.8	1,372.3
Short Term Public and Private .....	\$2,435.5	\$2,133.9	\$1,829.9	\$1,165.7	\$ 843.0
Commercial and Financial Credit .....	1,316.0	1,201.7	963.7	735.9	305.9
Banking System .....	1,119.5	932.2	866.2	429.8	537.1
Banco Central .....	486.0	274.9	309.3	—	—
Banco de la Nacion .....	505.1	488.9	452.2	375.6	537.1
Commercial Banks .....	127.9	166.4	100.7	46.9	62.1
Development Banks .....	0.5	2.0	4.0	7.3	37.5
Gross External Debt .....	<u>\$7,300.7</u>	<u>\$8,397.1</u>	<u>\$9,055.3</u>	<u>\$9,106.5</u>	<u>\$9,279.8</u>

Source: Banco Central

Unable to support the growing external debt service burden which in 1978 amounted to 38% of total exports, a stabilization program was instituted in mid-1978 which included rolling over debt due in the second half of 1978 and restructuring 1979 and 1980 maturities. Interim financing was arranged with various central banks.

This program was modified somewhat and incorporated into a stand-by agreement with the International Monetary Fund signed in September 1978. The agreement called for specific targets in

central bank credit to the public sector, levels of international reserves and ceilings for borrowings up to ten years. With the successful implementation of the stabilization program, the government was able to renegotiate 90% of its external debt obligations due 1979 and 1980 with international banks, members of the Paris Club and other governments.

Primarily due to increases in exports and strengthened balance of payments, the government was able to forego part of the scheduled refinancing. The 1979 refinancing of \$362.6 million with commercial banks was paid off at the beginning of 1980. The government has also recently paid the amount originally scheduled for refinancing in 1980. The 1979 Paris Club refinancing was concluded as scheduled but the amount corresponding to the scheduled 1980 refinancing will not be used.

In July 1979, the IMF approved a supplementary credit to Peru of \$370 million. The Peruvian government utilized the proceeds of this loan for the cancellation of short-term loans drawn by Banco Central in 1978.

The following table lists the nation's external debt service profile, but does not take into account the April 1981 payment described above.

#### EXTERNAL PUBLIC DEBT SERVICE: 1978—1985

(in millions of dollars)

	<u>Amortization</u>	<u>Interest</u>	<u>External Public Debt Service</u>
1978 .....	\$ 432.1	\$305.7	\$ 737.8
1979 .....	483.5	424.3	907.8
1980 .....	967.9	557.2	1,525.1
1981 .....	1,014.8	523.4	1,538.2
1982 .....	1,091.4	528.0	1,619.4
1983 .....	1,226.8	525.7	1,752.5
1984 .....	1,247.6	519.1	1,766.7
1985 .....	1,330.0	535.0	1,865.0

Source: Banco Central

While external debt service payments as a percentage of total exports have remained at high levels due to the payment of the 1979 and 1980 refinancings, total external debt is declining as a percentage of GDP.

### INVESTMENT IN PERU

#### Introduction

..... "we must seek foreign savings in order to contribute to our development. This includes...attracting foreign capital to invest in Peru and assist in the financing of large scale projects that the country must carry out. We should not frown at this prospect; it has nothing to do with politics. All countries of the world are today seeking the aid of foreign capital and know-how, whatever the political banner of the investors and host countries...." This statement, which summarizes the present attitude of the government of Peru towards foreign investment, was made by Prime Minister Dr. Manuel Ulloa in an address to Congress on August 27, 1980. It marks a dramatic change in attitude from that which characterized the administrations of the preceding 12 years.

Fundamental to the new economic policy is heavy reliance on the private sector and recognition that Peru's development requires not only foreign capital but technology and managerial experience as a complement to its own resources. To this end, the government is creating a legal and

administrative environment conducive to all business and placing foreign investors on an equal footing with Peruvians.

Constitutional guarantees for investors include: the equal treatment of foreigners and Peruvians, whether individuals or corporations; protection of private property from expropriation, recognition of rights to patents, trademarks and technology and the prohibition of laws with retroactive effect. The Constitution recognizes the binding nature of international arbitration treaties on the public sector and also specifically permits foreign jurisdiction in international financial contracts.

Tax incentives are being offered in a number of sectors to encourage investment and reinvestment in existing projects. Special treatment is being provided for investment and reinvestment in mining and petroleum. Additional tax incentives are also being offered for investment in less developed areas such as the Selva. Exporters of non-traditional goods are provided with attractive rebates on domestic taxes. Peru is also negotiating treaties with a number of major industrial countries to avoid double taxation and through tax sparing provisions to ensure that the benefits of Peruvian tax incentives will not be negated by taxes in the investor's own country.

Peru's vast resources in minerals, petroleum, agriculture, forest products and fishing have great potential and can be developed for both domestic and international markets. Manufacturing opportunities exist in a wide variety of industries. Skilled and successful local entrepreneurs offer opportunity for joint ventures in a variety of activities. Abundant labor provides possibilities to potential investors in a wide range of industries.

The National Committee of Foreign Investment and Technology (CONITE) has been reorganized to help foreign investors with legal and regulatory matters by centralizing and expediting such procedures. It will thus assist new foreign investment rather simply regulate it.

COFIDE, Peru's principal development finance institution, can assist interested foreign investors by identifying projects, conducting feasibility studies and seeking joint venture partners. A new division has been formed to centralize all promotional activities. COFIDE may also provide equity or debt capital.

## Background

Foreign direct investment has been concentrated in petroleum, mining and manufacturing. Excluding petroleum, approximately 43% of registered foreign direct investment was by U.S. companies and 35% by investors domiciled in Switzerland, Panama, the United Kingdom and Italy. Among those companies which have investments in Peru, either directly or through affiliates and subsidiaries, are the following:

American Smelting and Refining	Pirelli
Newmont Mining	Goodyear
Phelps Dodge	Matsushita
Marmon Group Inc.	Bunge & Born
Peñarroya Mining	Ajinomoto
Homestake Mining	Procter & Gamble
Mitsui Mining & Smelting	Fleischmann
Mauricio Hochschild & Cia.	Mitsubishi Corporation
Bureau de Recherches Geologiques et Minieres	Philips
Occidental Petroleum	ITT Sheraton
Belco Petroleum	Bank of America



Dresser Industries  
Brown Boveri  
Armco  
Sears Roebuck  
Volvo  
Toyota  
B.F. Goodrich

Bank of Tokyo  
Citibank  
Lloyds Bank International  
Bank Sudameris  
Credit Lyonnais  
Chase Manhattan Bank

### Current Developments

It is estimated that net foreign investment in new projects will total over \$400 million in 1981. The vast majority of this amount is being invested in the petroleum sector under existing contracts.

Various European, Canadian and United States companies are discussing new investment under contracts with Petroperu. Superior Oil has entered into an exploration contract with Petroperu covering an area in the northern Selva, the first such contract in several years. Others are negotiating both on-shore and off-shore exploratory contracts. The government is publicly advocating the successful outcome of these negotiations to reverse the sharp drop in drilling activity experienced since 1975.

To stimulate secondary and tertiary production in the older fields, the government recently authorized Petroperu to execute contracts with private foreign and domestic companies for these services. Previously such activities were reserved exclusively for Petroperu. Occidental and Bidas S.A. of Argentina are partners in a secondary recovery contract with Petroperu to operate eleven fields in the Talara zone.

Peru is also encouraging foreign investment in mining projects to expand output of copper, lead, zinc and iron ore. Many of these projects involve properties and concessions acquired by the state-owned mining companies, Mineroperu and Centromin. A major effort is being made to bring some of these properties into production in the next two to five years. Most of them have been subjected to extensive exploratory effort and some have completed feasibility studies. The government intends to be flexible in developing financing plans for these projects. Where appropriate, foreign technical and equity participation is being actively encouraged. However, with respect to projects now controlled by Mineroperu and Centromin, the state will contribute at least 25% of the equity.

Tintaya, a project located near Cuzco with ore reserves of 50 million metric tons containing at least 2% copper, is expected to begin construction shortly. The mine will produce copper ore at the rate of 8,000 tons per day. A concentration plant designed to produce 146,000 tons per year of 30% to 35% copper concentrates will also be constructed. The total investment in the project is estimated at \$280 million. Other projects in which foreign investment is being sought are the second stage of Cerro Verde, and Antamina copper mines and the copper and silver deposit of Toro Mocho. SPCC is considering increasing annual production at its Toquepala mine from 100,000 to 150,000 tons of copper ore.

A new project is being studied under World Bank auspices to develop large deposits of phosphate located near Bayovar on the northern coast of Peru. The project includes the development of a mine with an output of either 1.5 million or 3.0 million tons per year and three chemical plants for the production of phosphoric acid, diammonium phosphate and triple super phosphate. A detailed feasibility study is scheduled for completion in August 1981. Substantial private sector participation is anticipated.

It is estimated that Peru has significant coal reserves. The deposits are dispersed throughout the country and the quality of the coal varies. PROCARBON, a new corporation, is being formed to promote the development of these resources.

In manufacturing, opportunities exist in metal refining and fabrication, food processing, petrochemicals, transportation equipment, textiles, consumer goods and construction materials. Projects are being studied to construct a copper billet mill and tubing plant. Foreign partners are being sought to supply technical expertise and marketing assistance, as well as capital investment.

Most advanced among major forest products development is the von Humboldt project located in the Selva near Pucallpa. Private sector participation is being sought in the integrated exploitation of some 125,000 hectares of tropical hard woods including mahogany and cedar to produce approximately 60,000 cubic meters per year of sawed wood, plywood and other products for domestic and export markets. Feasibility studies are being prepared on a project near Iquitos on the Amazon which would include pulp and fiberboard as well as hard wood products. Most of the output would be exported. A smaller pulp project near Pucallpa would supply the domestic market which currently imports 23,000 metric tons per year.

Commercial scale agriculture in areas not now being worked, especially the eastern slopes of the Andes and the Selva, is encouraged by recent legislation. Projects which were held up pending enactment of the new law are now being developed on a priority basis. Among the products being considered for large scale production are sugar, coffee, rice and african palm. The penetration road building program will also open up large areas suitable for raising livestock. Tax and credit incentives are available for agricultural investments.

#### **Rules Affecting Foreign Investment**

Foreign investments must be authorized and registered by CONITE which will provide assistance in identifying the regulations and incentives applicable. CONITE's policy is to authorize investments in all areas which are not expressly prohibited by law.

Foreign investments are generally subject to the Peruvian version of Decision 24 of the Andean Pact. In addition to its primary objective of establishing a regional common market the Andean Pact seeks to establish uniform standards for foreign investment. These were set forth originally in Decision 24, later amended by Decision 103 which adopts a more liberal approach and allows wider latitude for regulation by individual countries. It is the policy of the Peruvian government to interpret the decisions constructively so as to encourage foreign investment. Peru has asked its partners in the Andean Pact to study this decision to make it more flexible. In the meantime, CONITE is clarifying regulations as they presently apply to foreign investors in Peru. It also has authority to exercise considerable discretion in applying them.

Once registered, foreign investors are authorized to repatriate the full amount of their investment whether from the proceeds of the sale or liquidation of their holdings in a Peruvian company after payment of applicable taxes. Decision 24 as amended establishes a general norm for profit remittance of 20% of registered investment, but allows each country to set higher limits. The Peruvian government is drafting legislation which would allow full remittance of profits.

Under Decision 24 companies seeking the advantages of the trade and tariff incentives of the common market must be at least 51% owned by national investors. Foreign enterprises (those with more than 49% foreign ownership) which agree to become at least 51% owned by national investors over a 15-year period may also benefit from these incentives. Under Peruvian law, those foreign companies that do not seek common market incentives are not subject to the rules on national participation in capital.

Petroleum and mining companies, as well as those exporting at least 80% of their production outside Andean Pact nations, are not subject to national capital requirements nor profit remittance restrictions.

All companies are permitted to borrow from sources abroad provided such borrowings are registered with Banco Central. Foreign owned companies may borrow at terms up to three years in the Peruvian market; long term financing is reserved for mixed and local companies. The availability of foreign exchange is guaranteed with respect to payments of royalties, dividends and the repatriation of equity on foreign registered investments as well as with respect to payments of interest and principal on registered foreign currency loans.

Oil companies may operate in Peru through contracts of association (also called production sharing contracts) with Petroperu. Under these contracts, the surface and subsurface rights are owned by Peru. Title to the contract area is held by Petroperu and the contractor acts as operator. Contracts of association normally have a term of 35 years. The contractor assumes all investment and operating costs. Each contract covers approximately one million hectares. Any reserves belong to Petroperu, but the contractor is usually awarded a percentage of production (generally 50%) as payment for his services. Contracts expire at the end of seven years if no commercial discovery is made. At the end of seven years the operator must relinquish 50% of the original area covered in the contract. The contractor must start exploration within six months of the contract date, and during the first four years must drill at least four wells.

In a move designed to encourage development of the mining sector, the government recently eliminated the state monopoly on the marketing of metals and eased restrictions on foreign and local investment. No such restrictions previously existed with respect to small- and medium-sized mining projects. Under new regulations, there are two methods through which foreign investors may participate in the mining sector. These are acquiring up to 100% of any concession not currently reserved for the state or investing with the state in projects where either side may contribute the concession and technical and financial support. In another move to stimulate investment in mining ventures, in February 1981 the government announced a gradual reduction of the 17.5% tax on mineral and petroleum sales. This tax will be phased out by June 1983.

### **Taxation**

Corporate income tax rates are progressive, rising from 20% on the first S/. 100,000 of taxable income up to 55% on the excess over S/. 1 billion. Liberal treatment of depreciation and other expenses and tax credits for reinvestments generally result in lower effective tax rates.

Mining companies are subject to income tax at a rate of 20% on the first S/. 100,000 of taxable income up to 40% on taxable income in excess of S/. 50 million but not greater than S/. 100 million. Taxable income in excess of S/. 100 million is subject to rates varying from 37.5% to 65% based on the gross profit return on the company's gross investment in fixed assets (the higher the return, the higher the tax).

Petroleum contractors in Peru are subject to tax on profits derived from the contract. Taxes are calculated generally on gross revenues from sales, less allowable costs. The tax rate is 55% of taxable income. In addition, contractors must pay a remittance tax at the rate of 30% of net, after-tax income, whether or not such income is remitted. No depletion is considered since the contractor is not the holder of the petroleum concession. Income from technical services is taxed at effective rates of 24% for corporations and 28% for individuals.

Personal income taxes have recently been modified and reduced. Though the same progressive rates have been maintained (with a maximum incremental rate of 65%) the base has been raised

substantially to reflect past inflation. A new tax unit has been introduced to express tax brackets which would facilitate any similar future adjustment.

All profit-making entities in Peru are subject to an annual business equity tax which ranges from 1.2% on net equity less than S/. 3 million to 2% on net equity in excess of S/. 10 million. Companies are required to revalue fixed assets annually in accordance with an index specified by the government, generally reflecting the consumer price index. Amounts attributable to the revaluation of fixed assets are added to a special account included in net equity (superavit de revaluacion) and are subject to the business equity tax.

A tax is payable on manufacturers' sales, wholesalers' sales, and the c.i.f. value of imports and exports. The general rate of the manufacturer and importer levels is 22%, with exceptions. The rate for exports is 3%, again with certain exceptions. The tax on exports, as well as on domestic sales, of mining products is 2%. The tax must be added to the sale price and sellers may deduct the tax on the purchase of products they sell. The government is in the process of unifying these taxes and reducing the average rate as part of a comprehensive tax reform. In addition to the sales tax, as noted above, export and domestic sales of mining products were subject to a 17.5% tax which also applied to the export of other traditional products. This tax has recently been reduced and will be completely phased out by June 30, 1983. Employers are assessed a payroll tax of 2.5%.

Royalties paid to non-residents for trademarks, patents and licenses are taxed on a sliding scale rising from 20% up to S/. 1 million to 55% for S/. 1 billion or more with a 30% surcharge on the resulting amount.

Dividends paid to non-residents are generally subject to a withholding tax of 30%. Interest earned on foreign loans to private entities is also subject to a withholding tax which may be waived by Banco Central.

### **Profit Sharing**

Net profit, after income tax, is subject to certain special charges totalling 27% of such net profit in the case of industrial entities. These charges total 11% for mining companies and 22% for companies engaged in the fishing industry.

Included among these charges is an amount equal to 10% of net annual profit of industrial companies which is distributed among all hourly and salaried employees of such companies. This payment is reduced to 4% of the net profit of mining companies and 8% of the net profit of fishing companies.

In industrial companies, the second component is a 13.5% charge to net profit which is paid to a special account for the benefit of all employees (participación patrimonial del trabajo). At least 50% must be invested in special employee shares known as acciones laborales. The shares are non-voting, freely transferable (some are traded on the Stock Exchange) and entitled to non-cumulative, 5% preferential dividends, if earned. Each employee may elect to receive the remaining 50% either in additional special employee shares or in certain authorized investments including employee bonds (bonos laborales) issued by the employer. When the total amount paid by the employer into this special account reaches an amount equal to 50% of investors' paid-in capital (or one-third of total



equity capital), his obligation to make further payments ceases. It is revived only if investors' paid-in capital is increased.

The third component for industrial companies is an annual payment to the industrial communities (comunidades industriales) to which all employees of industrial companies belong. This payment amounts to 1.5% of net profit. Owners of labor shares are entitled to name up to one-third of each company's directors, depending on the amount outstanding.

Finally, 2% of net profit (1% in the case of mining companies) must be invested annually in scientific and technological research approved by the National Research Institute or paid to that Institute.

Mining, fishing and telecommunications companies are obligated to pay to their employees 6%, 12% and 15%, respectively, of their annual net profits in a system similar to that of industrial companies.

### **Tax Incentives**

The government offers incentives, generally in the form of tax exemptions, reductions and credits to promote economic activity. Loans may also be available on favorable terms. The incentives are based on type of activity, location and the export of non-traditional goods.

Credits are available against income taxes on reinvestment for such purposes as diversifying production facilities or expanding and modernizing existing facilities. Such reinvestments may also be made in other companies including newly created ones. The maximum percentage of such credits varies according to the activity of the company in which the reinvestment is made. New industrial companies are also entitled to reduction in the business equity and payroll taxes for a five year period. During that period they may also receive additional tax credits based on the amounts of their payroll.

Special incentives are also available in agriculture, forest products, and fishing.

Mining companies may obtain income tax credits based on the reinvestment of income in their own or other mining enterprises. On February 27, 1981, a new law was adopted which permits mining companies to obtain credits, up to 40% of income taxes payable, for amounts so reinvested. The mining tax credit enables investments to be credited against income taxes for the year in which they are made with the possibility of carrying forward the unused portion of the credit for another three years. In addition, the new law provides special tax concessions for new projects. Income taxes can be reduced by contract up to one-third for the period of recovery of the investment, plus five years. These changes are designed to stimulate investment in mining and correct inequities that previously existed in the tax incentive program.

Mining companies also are permitted to amortize the purchase price of mining claims and concessions over a maximum of 10 years and to write-off annually 100% of investments up to S/.50 million. The excess over this amount up to S/.100 million may be depreciated over five years or at the normal rate, whichever is greater.

Until recently, no tax incentives were available to petroleum contractors of Petroperu and they were heavily taxed in comparison to other countries. A new reinvestment tax credit improves the relative tax position of Petroperu contractors and provides significant incentives. Contractors may now obtain credits, up to 40% of income taxes payable in the northern zone and 50% elsewhere, under conditions comparable to those applicable to mining companies. For example in a situation where deductible expenses amount to 20% of gross production, full application of the credit would improve a contractor's net share of production from 12% to 22%. Only investments which increase



recoverable reserves or production in productive wells will qualify for tax credit. Contractors are entitled to exemptions in respect of import duties for certain types of equipment required in their operations.

Companies located outside the Lima/Callao area receive additional tax benefits for reinvestment, reductions on import, export, business equity and sales taxes and reduced rates on distribution of profits. Operations in the Selva are generally exempt from corporate and personal income taxes, import and export taxes and pay reduced sales taxes.

Peru is negotiating treaties with several major industrial countries to ensure that the benefits of Peruvian tax incentives will not be negated by taxes in the investor's own country, and also to avoid double taxation.

Exports of non-traditional products are fostered through tax rebates (CERTEX). The rebate currently ranges from 15% to 22% of the f.o.b. value of the exports depending on the product exported. An additional 10% credit is granted to companies outside the Lima/Callao area. Previously authorized industries which export 40% or more of output within two years of start up are partially or totally exempted from import duties on equipment. Companies meeting a target for percentage of production exported (10% rising to 40% in 1986) receive more favorable reinvestment tax credits and accelerated depreciation.

**Persons interested in obtaining additional information on investment in Peru may contact the following:**

**COFIDE**

**Division de Promocion  
Edificio La Torre de Lima  
Piso 28—Oficina 2804  
Centro Civico, Lima 1,  
PERU**

**Telex: 20162 PU  
26356 PU  
Phone: 241411**

**CONITE**

**Secretary General  
Ministerio de Economia,  
Finanzas y Comercio  
Av. Abancay 500, Lima 1,  
PERU**

**Telex: 20187 PE MINDEF  
Phone: 287501**